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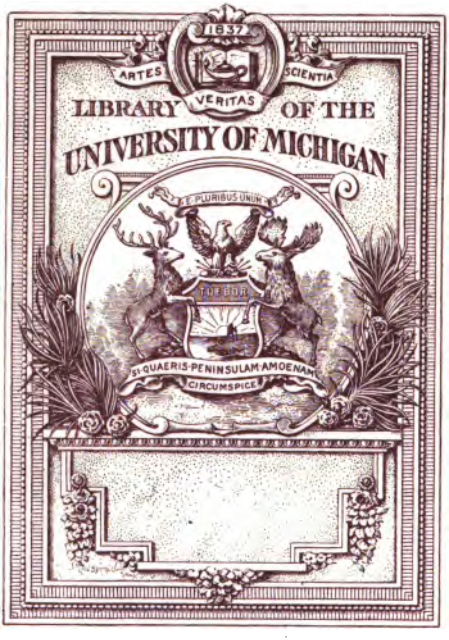
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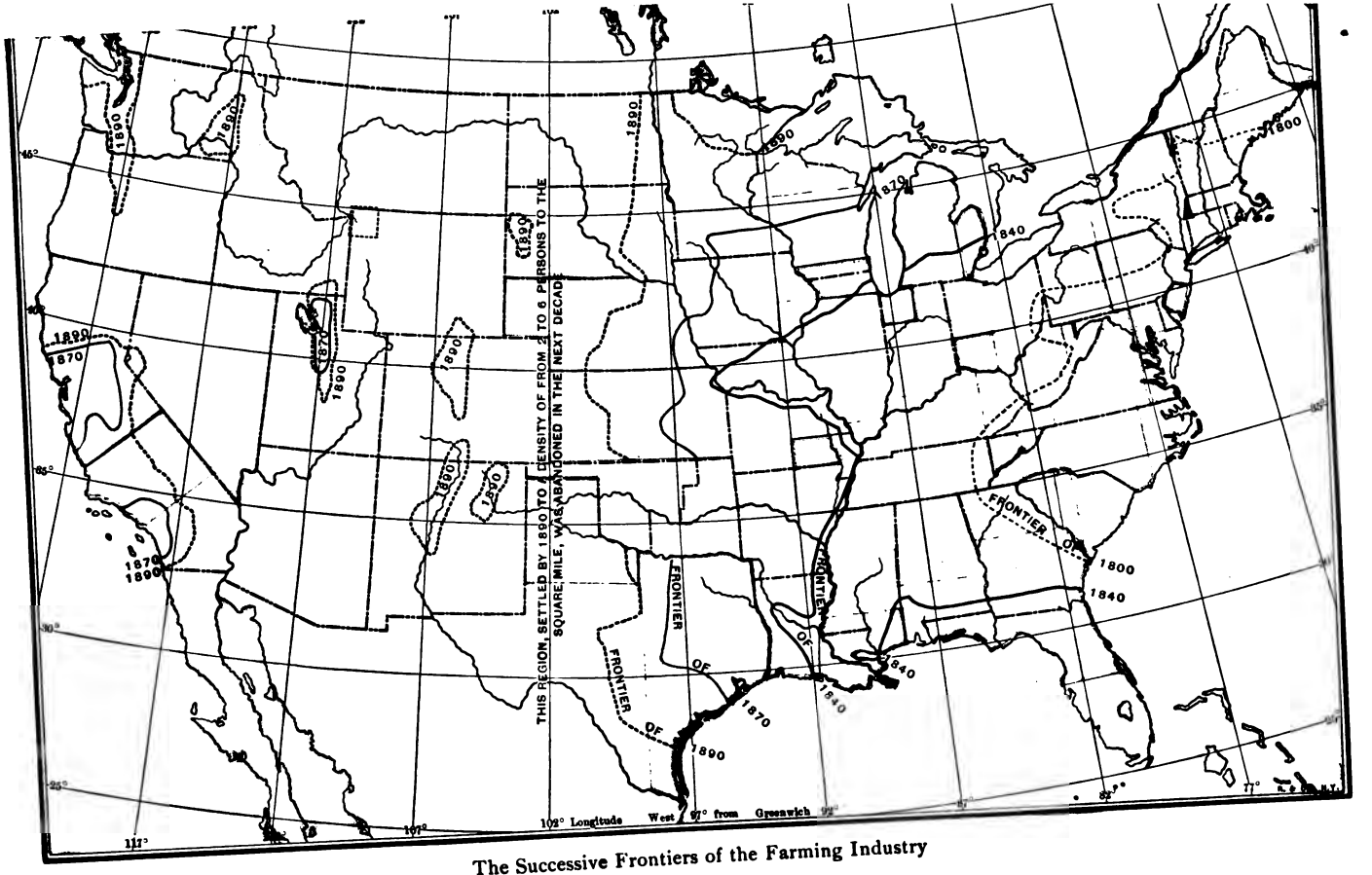
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The colored areas are intended to display the geographical distribution of the vote on the "inflation bill" of 1874, having regard for the House of Representatives only. The part of the area of any State colored green bears the same ratio to the whole area as the portion of the State representation voting in the affirmative bore to the whole representation of that State. The part of any State representation voting in the negative was proportional to the portion of that State colored yellow on the map. In like manner the parts of each representation not voting are indicated by a corresponding area left white.

The frontier lines show the limit of settlement to a density of six or more persons to the square mile and roughly indicate the "farmer's" frontier as distinguished from that of the trapper, miner, and ranchman.

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MONEY INFLATION

IN THE

UNITED STATES

A

STUDY IN SOCIAL PATHOLOGY

BY

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G. P. PUTNAM'S SONS

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PREFACE

IN the light of political events of the last decade, we might infer that the American people have decided to tamper no more with the standard of deferred payments, and to abandon forever the fruitless chase after the phantom of value created by legislative enactment. Assuming that such is the present attitude of the country, and that any effort to point out the errors of the fiat-money doctrine would be wholly gratuitous, have we yet any guaranty against a revival of these fallacies on the recurrence of business depression?

Certainly it is not wise to wait until an epidemic begins before giving attention to sanitary measures. When everybody seems to be in perfect health, no one can doubt the wisdom of destroying all possible sources of infection. The following study is an effort to lay bare the real nature of the social malady from which our country has so frequently suffered, with the single purpose of stimulating adequate provision against its return.

That the author may be on terms of complete understanding with his reader, it should be said that no attempt is made to write a history of American currency nor to give an adequate exposition of monetary theory. There has been no effort to present a history of our industrial progress nor a complete discussion of social psychology. The references to monetary and industrial history, as well as those

to economic and psychological theory, have been made with the definite purpose indicated. The result is that many matters of interest have been omitted and many sources of historical and theoretical material have not been mentioned in the fear that by such digression emphasis and proportion would be sacrificed. Whether the selection and ordering of the material have been adapted to the purpose the reader must judge.

The study was undertaken in a seminar of Professor J. Laurence Laughlin of the University of Chicago, and ripened into a dissertation for the degree of Doctor of Philosophy in that institution. Whatever merit the work possesses must be attributed in large measure to the many pertinent suggestions of Professor Laughlin and to his patient and searching criticism of the finished work. My thanks are also due to Assistant Professor William Hill of the University of Chicago for valuable information on agricultural conditions, to his wife, Caroline M. Hill, and Professor Addison W. Moore, who have read and criticised the psychological part of the study. I must also express gratitude to Professors Richard T. Ely of the University of Wisconsin and Davis R. Dewey of the Massachusetts Institute of Technology for reading the manuscript and making timely suggestions. Finally I must acknowledge the patient co-operation of my wife without which the work would have been impossible.

M. S. W.

CENTRAL COLLEGE, FAYETTE, MISSOURI,
April 2, 1905.

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MONEY INFLATION IN THE UNITED STATES

INTRODUCTORY

THE experience of the United States presents a rich field for the study of any phenomena pertaining to depreciated currency. In this country the resort to paper issues has attended every great financial crisis of the Government Treasury, and the call for more money has become regularly associated with every period of serious industrial depression.

Very early in American history, even before the independence of the Colonies was established, there appeared, in several sections, a peculiar popular attachment for those issues of paper currency which the fiscal needs of the States or of the Congress had induced. The population at this time was almost wholly rural and, except in the few large towns or thickly settled districts around them, all endured the privations of a frontier life. As the country developed and the economic and political conditions improved, established business interests gained more influence and the depreciated paper issues gave place

to a more stable system of silver coin and redeemable bank-notes.

Again in the period from 1810 to 1840 there was an exodus to the fertile lands west of the Alleghanies. A new frontier was established, a new area occupied by that vigorous and discontented element of the population which is ever ready to brave new hardships and risk health and life in search of fortune. Again we find a wave of depreciated paper money with many phenomena of the preceding generation reproduced in the newer settlements.

After the Civil War, when it was the universal expectation that the country would quickly return to a specie basis, there sprang up a remarkable sentiment in favor of the greenbacks, and associated with it was another set of economic and social conditions essentially similar to those existing in the eastern Mississippi valley thirty years before. A new frontier line had been drawn, another West with its new farms and small unfinished towns widely separated by stretches of prairie. A new generation of adventurers undergo the privations of pioneer life, and we have again the demand for more money, and the denunciation of the Shylocks, which had characterized the movement in the thirties.

The speculative era which followed the war, and which culminated in the panic of 1873 and the hard times of that decade, was scarcely over when another period of western development began. Great lines of railway opened up expanses of fertile prairie. Improved machinery for agriculture gave an impetus

to that industry such as had never been approached before. The call for greenbacks had hardly died away when the West was again aroused and was demanding the free coinage of silver as a means of increasing the money supply of the country. This demand we find associated with essentially the same economic and psychological conditions which had characterized the agitation for paper in the past.

It is not the author's present purpose to write a history of money, nor to enter into a discussion of theories on which currency systems may rest, but rather to make a study of the economic pathology indicated by these recurrent demands for an expanded circulation, and to discover if possible the psychological and economic elements which combine to produce this peculiar attitude of mind.

This investigation proceeds on the hypothesis that in any social movement the individual on the one hand and his environment on the other furnish two essentially distinct lines of causation. The individual forces, which are psychological, and the forces outside of him, which, in this case, are chiefly economic, may operate together to produce a joint result in the social life of the people, or they may develop opposing tendencies and in great measure neutralize each other.

Accordingly Part I. is an effort to state the psychological principles which underlie the motives of persons under the pressure of certain economic conditions, and in a measure to assign to these motives their relative strength. It is the purpose in Part II. to state the economic conditions which prevailed in

four stated periods in our history, in so far as these conditions are thought to throw light on the problem in hand, and to point out at the same time the interaction of the psychological and economic forces in producing the observed result.

PART I

THE PSYCHOLOGY OF INFLATION MOVEMENTS

CHAPTER I

THE PSYCHOLOGICAL BASIS OF POPULAR MOVEMENTS IN GENERAL

§ 1. The purpose and scope of this chapter. 2. The development of emotional states as the origin of action. 3. Subconscious mental processes and suggestibility in the individual. 4. Suggestibility in a social group. 5. Mental rigidity the result of mental isolation. 6. Origin of social institutions in authority and community of interest.

§ 1. It is the purpose in the present chapter to state certain general principles of psychology which underlie the conduct of a community of persons who may be affected by a similar environment. The influences which affect individual minds will be noticed first, and then the manner in which this effect is transmitted from one to another until it becomes in turn the cause of a social or political movement. From the first it should be kept in mind that the questions which form political issues do not ordinarily admit of absolute demonstration to all the people, but are rather those upon which most men form an opinion determined in part by prejudice, in part by dependence on authority. The discussion is concerned with the manner in which this opinion or conviction is reached and the conditions which give it social motive force.

To analyze fully a particular state of consciousness in any individual may be impossible. Since no two minds are wholly alike the introspection of one can never give a perfect picture of another. However, introspection does show a likeness of mental states here and there, and moreover, where these similarities appear it is often clear that like causes have been at work. It may be possible, then, to make an analysis of the psychological processes which animate a social group where those of an individual would baffle observation. In the social group it is only the coincidence of individual minds which is important.

§ 2. We may say that all human conduct is impelled by ideas and in each case depends for its direction and intensity upon the character of the controlling idea. Moreover this controlling idea, though perhaps essentially an intellectual product, is never purely intellectual but is always enveloped in feeling, and it is to this feeling that the volitional process responds directly. That is, feeling constitutes a link between what would be a purely intellectual product on the one hand and a purely volitional one on the other.[1] With the exception

[1] "Experience first acquires living reality in feeling. A mental life in which ideas should succeed one another while the mental subject remained utterly indifferent would be utterly mechanical and meaningless. A volitional life of equal indifference would be equally worthless. These mental functions become personal and significant only as our feelings and interests inform them with life and meaning. And in general all values and all goods exist as such only in the sensibility. Apart from this there is no reason for desiring one thing rather than another, or for saying that one thing or state is

of instinctive acts, these three elements are perhaps present in every act or state of consciousness,—every idea carrying with it an appropriate feeling which impels to action. Every volition of this higher sort is the expression of a feeling or emotional state which rests in turn on an intellectual product for its initial basis. Not only are the three always associated, but a relation of dependence is always present.

Now this emotional state, which discharges itself in will and action, may be charged in turn by ideas of every possible sort—by mere bodily sensations, painful or pleasant, of health or disease, by thought processes or images of memory and imagination. To the extent that thought processes are the determining source of action, and to the further extent that these thought processes are logical and rest on sound premises, the conduct is rational. Thus knowing the premises in a given case, and that the reasoning will be logical, we can predict a conclusion, and the resulting volition in so far as its direction is concerned. The action, however, can only be predicted when the intensity of the emotional state is also known, and this emotional tension depends on the degree of the element of feeling which accompanies thought in the particular case under examination, modified by all other conditions of mind and body which may influence feeling. Whatever fastens the interest, whether it be an objective or a

better than another. Will and understanding have no significance except as instruments of this throbbing and aspiring sensitive life."—BORDEN P. BOWNE, *Introduction to Psychological Theory*, p. 217.

subjective thing, tends as it were to polarize the emotions, and the longer and more completely the interest is centred here, the greater will be the charge and the more forcible the final action.[1] On the other hand, whatever diverts the attention and thus divides the interest projects a point through which the depolarization of the emotional state takes place, and the presence of many points of discharge effectually prevents the accumulation of energy required to produce important volitional results. But place a person in a monotonous environment, a condition in itself which does not favor pleasurable feeling, and add to this monotony a sense of loss and privation or injustice, intensify these conditions by extending them over a wide area affecting many persons in this same way, and we have created conditions for effective social agitation.

§ 3. Any emotional state is highly complex: being subject not only to all ideas which may arise into consciousness, but to unconscious mental states as well—to habit, hereditary tendencies, and varying conditions of the physical organism; and human action is the resultant of all these forces in composition. It was intimated that the control of emotional

[1] "The intellect is employed in developing ground won for it by other forces. But it would appear that it has by itself no power to occupy this ground; it has not even any power to continue to hold it after it has been won when these (ultra-rational) forces have spent and exhausted themselves."

Speaking of the ultra-rational motives in social movements on pages 100 and 102 the same thought is expressed.—BENJAMIN KIDD, *Social Evolution*, p. 147.

states by logical intellection was the guaranty of rational conduct. Such control may be suspended or entirely lost. In such a case the motive idea may come from suggestion. That is, the mind in question accepts a suggested idea in lieu of one determined by its own independent thought processes. Such intellectual suspension comes about in the following manner. In the thought processes ideas must be examined, arranged, and compared, and the operation requires time and attention; especially is this true when the ideas are unfamiliar. To the extent that the processes themselves are habitual and the ideas which afford the material have been in the mind repeatedly, less time and attention are required to complete them.

A condition which especially favors the suspension of the intellectual control, and lays the mind open to suggestion, is present when the flow of ideas into the mind becomes too rapid for their orderly reception and assimilation. Such is the case in a crisis, or when the unexpected happens, or the expected does not happen. In this situation action may be very necessary, but of several lines of action possible the time and opportunity are not given for the reasoning processes to reach the issue of a choice. If action takes place at all under these circumstances, it is ultra-rational and from suggestion rather than from reason. Here the rapid flow of ideas with their accompanying feeling, intensified by interest in the outcome, often develops a very intense emotional state, which discharges itself along the suggested course. These are the conditions which produce

panic. Men "lose their heads," as the saying is, and plunge blindly in the direction which any momentary impulse determines.

The suggested idea has all the force of truth or fact in arousing a state of emotion, and the conduct which results from such a mental process as this is not rational since it rests on belief rather than on knowledge, on authority rather than on demonstration. Here the intellectual processes may not be wanting, but they are rather unconscious, or at best sub-conscious, since the mind is not fully cognizant of its own operations. It is hardly necessary to add that when a knowledge of the facts adequate to a rational judgment is wholly wanting dependence on authority is all the more complete. As a matter of course, an untrained mind is most susceptible to suggestion.

When the conscious intellectual control over this series of mental acts may be temporarily suspended or lost, the emotions rise and fall, and sway here and there under the more or less fitful guidance of sub-conscious, if not indeed quite unconscious, mentality. Our experience is full of such instances. It is in such a case as this that one "speaks before he thinks." Few persons are able to choose and act always in what they know perfectly well to be the wiser course. Fewer yet inhibit action until the problem has been fully weighed on its merits and a logical conclusion reached in the premises. The existence of this sub-conscious, or sub-waking, state is the scientific basis of hypnotism and the production of this sub-waking state is the first

object of the operator.[1] This condition of mind once established in the subject, he is open to any suggestion that may proceed from the person who conducts the operation, and whatever this person may assert is accepted as a fact, even though the impossibility of the assertion would be perfectly clear to the subject when in the normal possession of his faculties. All persons are not equally susceptible to the conditions which produce this subconscious state of mind, but none are entirely free from their influence. Whatever shakes confidence in one's own thought processes or in the premises on which they rest contributes to one's intellectual suspension. The presence of phenomena that cannot be explained, bewilderment, conditions of physical health, habits, or anything which places limits upon the intellectual or volitional activity of the individual, brings on that attitude of mind which follows suggestion and the leadership of others more or less blindly.

This suggestibility or like responsiveness results in a universal tendency to imitation. A person or class of persons who for any reason have attained such prestige or notoriety as to become objects of attention become at the same time the standard for more or less unconscious imitation.

[1] "Doctor Moll sums up his theory of hypnosis thus: 'We may then consider every hypnosis as a state in which the normal course of ideas is inhibited. It matters not whether the ideas have to do with movements or with sense impressions. Their normal course is always inhibited. The idea of a movement, called up in a subject, in or out of hypnosis, has a tendency to induce the movement.'"—BORIS SIDIS, *Psychology of Suggestion*, p. 73.

The manners, dress, or even beliefs, where they change in a community, do so under the force of this tendency to follow leadership. We are all conformists, society at all points assumes it, and it is this tendency which in its more or less extreme form develops the fad, the mania, or the mob.[1]

§ 4. When a number of persons are together in what we might call an intellectually receptive attitude, which implies a greater or less degree of subconsciousness, and these persons are acted upon by the same suggestion, or series of suggestions, as would be the case when an audience follows the thought of a skilful speaker, the effect of the suggestion on each person is greater than it would be if he were receiving it alone. This is explained by the fact that while no one of the hearers might accept everything that is said, every one would probably acquiesce at some points, and each sign of approval or applause gives weight to the suggestion of the speaker. For this reason an enthusiastic rally may sometimes do more to mold the opinion of the multitude than the most highly finished argument will do. From sheer necessity we believe things which we cannot know, and from premises founded in belief we reach conclusions that are really convictions, and these convictions have all the force of known facts in arousing appropriate emotional states. Indeed belief itself, in distinction from knowledge, contains a strong element of emotion, being essen-

[1] Gabriel Tarde in *Laws of Imitation* (English translation by Parsons) develops in great detail the psychological and physiological basis of imitation.

tially an incomplete thought process which has stopped short of absolute demonstration, but has gone so far as to produce an emotional state which rises in intensity varying with the strength of the conviction and interest in the subject.

These mental phenomena are familiarly illustrated in religious revivals, in political campaigns, and in the actions of mobs and crowds. Such psychic phenomena as have been described account for great historical, social movements, as of the Crusaders, Millerites, Chartists, and the like. The lower the scale of conscious intellectuality, the more susceptible is the mind to suggestion. The greater the apparent public approval, the more intensely is the conviction established, and the higher will be the emotional state which ensues. The result is that persons under the spell of united emotion will do things which none of them, separately, could be induced to do, for want of the necessary conviction and consequent emotional impulse.[1] Examples of this are found in the excesses of lynching mobs, or in cases of panic in commercial circles, and the more slow but otherwise similar growth of a social fad or fashion. Dr. Boris Sidis in his interesting work on the *Psychology*

[1] "When, for example, masses of men simultaneously respond to a party cry or symbol, the action for the moment is merely a like responsiveness to the same stimulus. An instant later, when each man perceives that, in this respect, his fellow-beings are resembling himself in feeling and action, his own emotion is enormously intensified. It is this that gives to all symbols and shibboleths their tremendous social importance."—F. H. GIDDINGS, *Democracy and Empire*, p. 38. For "laws of impulsive action" see, by the same author, *Elements of Sociology*, p. 136.

of Suggestion devotes several chapters to social suggestibility and many illustrations are given of this striking phenomenon. He says:

"Suggestibility is a fundamental attribute of man's nature. We must therefore expect that man in his social capacity will display this general property, and so do we actually find the case to be. What is required is only the condition to bring about a disaggregation in the social consciousness. This disaggregation may be fleeting, unstable, or it may become stable. The one is the suggestibility of the crowd, the other that of the mob."

He shows that in the mob an open, direct suggestion is effective, as it is in the case of hypnosis. But in the case of a "waking" subject, where the suspension is of the fleeting, unstable sort, direct suggestion is ineffective, meeting the resistance of the will of the subject. Under such circumstances suggestion must be indirect, or as Professor James says, veiled, in order to be effective. In the case of a crowd or congregation, all conditions of mind may be supposed to be represented, from that of the hypnotic or mob subject to that of the intellectually keen, emotionally cool, person, least of all subject to suggestion. In order to reach this latter class, the skilful orator will not make known his whole purpose directly and at once, as he might do if all belonged to the first class, but he will manœuvre, at first, to get their attention, and accordingly arouse interest in the greatest number possible of the latter class, until by entertaining stories and rhetorical pictures, interspersed with indirect suggestion

becoming more and more direct, he may secure the attention of all, and the confidence of the many, who will be ready to accept his authority or adopt his suggestion. Examples of this are too well known to need description. Perhaps literature affords none better than Shakespeare's portrayal of the oration of Antony at the funeral of Cæsar. The historic cases of Pope Urban at the Council of Clermont, and the preaching of Peter the Hermit, illustrate the same principle.

It merely follows the principles stated above to say that all social movements, however permanent or transient their effects may be, are essentially emotional even though they may rest ultimately on a sound intellectual basis.[1] Their immediate success depends on the acceptance of authority rather than on independent thought. The direct motive must be ultra-rational, for while emotion is social, contagious, and carries conviction by establishing belief, intellect is individual and disintegrating, and any wide, united action can with difficulty be secured when each person acts only on the result of his independent examination of premises. That is, thought is analytic first and synthetic afterwards. In order that men may independently think alike and reach the same conclusion, the materials of thought must be the same, the processes of analysis,

[1] "The substance of society at first is sympathy and instinct mainly. At its best estate, society may rise to a level where thought has for the moment completely subordinated feeling. But usually, and throughout the greater part of its career, society is sympathy and instinct more or less organized, more or less directed, more or less controlled by thought."—F. H. GIDDINGS, *ibid.*, p. 39.

classification, and final combination of ideas must take place in the same manner in the minds of all. The personal equation enters to prevent such absolute similarity, and one and the same conclusion can be reached by independent thinkers only rarely. Indeed, by comparing ideas, one person with another may adopt common ground at certain points, but the greater the number of persons who enter into the discussion, and the more complete their independence in thinking, the greater will be the difficulties encountered and the greater will be the element of compromise in the result. That is, in order to secure common action there must be a mutual surrendering at points of divergence in the separate thought processes, and finally a common yielding of these thought processes to the present emotion which can alone result in action.[1]

§ 5. Thinking is a term applied to two operations quite different as to means and results; one of

[1] "The desires and their opposites form the transition from knowing to willing. In feeling and knowing we have the condition of desire, and in desire we have the condition of proper volition. Our feelings and interests furnish the great impulses to action; they also outline its direction. Man (in distinction from brute) can interest himself in truth, in righteousness, in beauty, in a great variety of ideal aims, which thus become the norms and guides of his action. For these basal interests the intellect is simply instrumental and the will is merely executive."—BOWNE, *ibid.*, p. 217.

"So conceiving of reason and authority, and having within his own consciousness an experimental acquaintance with authority, the average man easily passes from a deference to the moral authority that is internally known to a reverence for an external authority that is impressively asserted, and allows himself to regard the external authority as, like the moral authority within himself, superior to reason."—GIDDINGS, *ibid.*, p. 22.

these consists in an examination of particulars and the determination of a general principle or concept. Another operation consists in the use of these concepts as standards of classification in the examination of other particulars. The first operation is inductive and the second deductive. Given a certain stock of concepts and the deductive reasoning may proceed to increase the mind's fund of ideas indefinitely, and a whole system of thought may be thus deductively raised. It is clear, however, that its soundness rests finally on the concepts which underlie it, and these again on the integrity and completeness of the antecedent inductive operations. Here it is that the limitations of the individual's experience exert a profound influence upon his thought. If the examination of cases be very wide, the concept will be relatively exact and adequate, involving only those elements that are essential. If, on the other hand, the scope of observation be narrow, the concepts will be relatively imperfect and will contain much irrelevant material. But be they true or false, the concepts will be formed and will exercise their function as a test for truth and fallacy. In so far as induction is concerned, then, intellectual activity is confined to the material available—that is, the mind has a certain fund of ideas in stock as it were, and at any time the individual is unable to project these processes beyond the stock in hand. This will be true even though the intrinsic quality of the intellect may be high. A person confined to a narrow range of mental activity and observation may acquire a high degree of skill, and exercise remarkable

judgment within this narrow field, and yet he will be totally unable to deal with matters that lie outside.

Moreover, mental processes, like muscular actions, tend to become habitual. Ideas which were the object of interest and attention yesterday are likely to recur to the mind to-day. By the law of association a group of ideas making a train of thought or an imaginative picture is likely to repeat its presentation as often as the associational conditions are repeated. The result of this is that a life of routine activity is conducive to routine thought processes, and these trains of thought and corresponding feelings becoming habitual, deeply and permanently affect the character of the individual.

Now mental processes that stop short of fatigue arouse pleasurable states of feeling. These habitual processes go on without friction, result in no fatigue, and produce pleasurable states of feeling. On the other hand, the unaccustomed thought must overcome mental inertia, cause fatigue, and tend to painful states of feeling. Such thought the mind will unconsciously avoid. In the light of this principle it is difficult to over-estimate the importance of personal experience in giving direction to mental development. Where the individual occupies an isolated situation, the first effect of the isolation is to narrowly limit the stock of intellectual material. The second effect is a tendency for the mind to become rigid and closed against the introduction of new ideas, since the experiences of the retired life have determined those mental processes which arouse emotional states which are pleasurable, as distin-

guished from those which are painful. The effects of this rigidity, therefore, are both positive and negative; the mind clings to the ideas it has, their order of representation, and the conclusions resulting from accustomed reasoning, while, on the other hand, it resists any change in the mental stock or in its disposition. Men listen eagerly to a speaker who expresses sentiments identical with their own. They read newspapers which advocate policies which they themselves approve. They give but little heed to advocates of opposite views.

It is because the isolated mind becomes more and more impervious to new ideas, and more and more dependent on habitual ones, that the individual seeks the association of "like-minded" persons. By this adjustment, which was at first accidental and later voluntary, the people of a given area become divided into social groups that think alike on certain subjects; sects are formed, and each person confining himself to association with his "set" confirms the habits of thought of that set, and in this manner perpetuates his own insularity. These two psychological principles of the association of ideas, on the one hand, and of mental inertia, on the other, contain the very essence of conservatism, as well as provincialism, and history affords many illustrations of their influence.[1]

[1] "The great incubus of our country is provincialism. The different parts of the country do not sufficiently understand one another. They lack the sympathetic imagination of each other. When the country thrills, for instance, with the question: 'What is the matter with Kansas?' it shows that something is wrong with the country.

This association of persons under the bond of a common interest gives a single and definite point of view. Every new object of thought examined appears in the same light; peculiar features pass unnoticed. The standard of expediency is that of utility to the particular group, and men and measures stand or fall as compared with this standard.

These principles of psychological suggestion and mental rigidity have great cultural significance. Children in the home are guarded against associations that are thought impure or degrading. They are brought up to believe this thing or deny the other, to adopt one course of action and avoid another. By these associations of early life prejudices are formed which are almost ineradicable; it is by this power that social institutions are founded and preserved to posterity. In matters of religion and of politics party managers rely with safety on the controlling force of these preconceptions as applied to a great proportion of the people. While the manner of home life, the religious creed, and the political party, afford perhaps the best illustration of this process of mental fixation, the principle no doubt extends much farther. Literary, scientific,

Kansas might as well ask: 'What is the matter with the country?'" —President WOODROW WILSON, lecture in Chicago, Nov. 29, 1903, as reported in the *Record-Herald*.

The following sentence from an unknown writer plays upon a tendency to obsequious imitation coexisting with a supercilious provincialism: "Few things are capable of affording more pure amusement to the cosmopolitan mind than the attitude of New York towards all things European, unless, indeed, it be her attitude toward all things Western."—*Booklovers' Magazine*, vol. i., p. 308.

or benevolent associations are formed whose members develop peculiarities of opinion which, to members of other groups, appear quite erratic. Peculiarities of thought or of manners may distinguish the inhabitants of a city or of a state. The many "isms" which have come up from time to time can usually be traced to some coterie of like-minded persons, and it has happened more than once that a given locality has produced two or more similar theories of conduct, or social organization, in succeeding generations.[1]

§ 6. Since the institutions of a given society are in fact the habits of thought of that society, the origin of these institutions is often not difficult to find. Where the word of authority may accord with superficial facts, institutions will take form in agreement with the facts and their explanation, quite to the disregard of more fundamental conditions less easy to observe. In order that the institution may become established, therefore, it is by no means necessary that it be founded on true premises but rather

[1] "Few people seem to realize that the populistic craze in politics first made itself manifest in the South, where the white population is nearly 100 per cent. native-born; that it found its most fertile soil in Kansas, and that its spread throughout the middle west may be traced directly to the blood of New England. . . .

"The same spirit that made 'Bleeding Kansas' a battle ground fifty years ago, and that made Maine and 'them steers' of Solon Chase's the synonym for greenbackism, thirty years ago, was abroad in Kansas in the nineties. It is the spirit that made every ism and ology flourish among the granite rocks of New Hampshire and Massachusetts. It is the typical American spirit of unrest and speculation."—From a review of an article by E. B. USHER, *Booklover's Magazine*, vol. i., p. 534.

that there may be a general agreement in belief throughout the community concerned. This agreement may come almost entirely from an authority in which the people have unusual confidence; of this class were the Inquisition, Witchcraft, and many denominational creeds. Some passage of the Bible was given a certain interpretation; this interpretation was enforced by eloquence or the prestige of the teacher; men and women accepted it, not only as truth, but often as a truth so hallowed that any attempt to examine its foundation by the light of reason would be sacrilege, if not indeed heresy; they were ready not only to burn their neighbors but to sacrifice their own lives in support of what they believed. In order that the minor institutions should thus stand unquestioned, the authority which underlay them was often given support by the establishment of more sweeping institutions, or doctrines such as the infallibility of the Church or of the head of the Church, or the divine right of kings.

Another reason for this agreement in thought, which constitutes an institution, has often been a coincidence in economic interest throughout a community. Individual liberty and political equality have been American ideals, because liberty and equality best suited our industrial system in the earlier decades of our history and to a diminishing degree until the Civil War. However, this general belief did not prevent the growth of the institution of slavery in the South, especially after the invention of the cotton gin. Here a local interest, stronger than that which affected the country as a whole,

prevailed over the more general and fundamental ideals of liberty and equality. In order that this institution of slavery might have support, it was proven by the Bible, and by the history of the world, to be not only expedient but "right." As the utility of slavery disappeared in the North, an abolition sentiment arose which condemned the system as utterly immoral, contrary not only to national ideals but to the principles of Christianity. More recently a section of the population very largely interested in land speculation have looked upon their own activities as perfectly right and normal, while they denounce the people who speculate in the products of the land as gamblers. On the other hand, men whose pockets were being filled by the taxation of their neighbors under the euphemism of protection, called the men who sought the free coinage of silver, socialists or repudiators.

CHAPTER II

PARTICULAR PSYCHOLOGICAL FORCES EFFECTIVE IN A MOVEMENT FOR CURRENCY INFLATION

§ 1. The purpose of Chapter II. 2. The influence of property rights under a popular form of government. 3. The effect of the possession of wealth on motives and mental habits. 4. The influence of occupations and interests of a rural community. 5. Rural populations essentially conservative even when advocating inflation. 6. The harmonizing tendency of general education.

§ 1. It was the purpose of the preceding chapter to describe the forces which operate in a community of persons in such a general way as to give a psychological basis for a social or political reform movement of any sort whatever. We found the first condition for such a movement to be an emotional rather than an intellectual attitude of mind; the second, a disposition to rely upon the authority of others in lieu of independent investigation, which is in the nature of the case usually impossible. In the third place, it was shown that this impossibility of independent inquiry — this bewilderment of the thought processes—is likely to be a condition precedent to the intellectual suspension which lays the mind open to authority; and, finally, that a doctrine once established in any community often continues

to mould the thought and conduct of that community for a long time even after it may be proven to be wholly or in part erroneous.

It is the purpose of this chapter to trace the psychological conditions which, in a more particular sense, account for the popular interpretation of certain economic ills from which the people suffered in several periods of our history — an interpretation which made plausible the demand for more money as a remedy. The direct questions which the following sections should answer are, first, Why does this agitation so readily take the form of a political contest—a demand for government interposition in business affairs? The second question is, What force causes the inflation sentiment to wax and wane with periods of business depression and prosperity?

It will be the work of succeeding chapters to show the real nature of these ills and, by bringing together the economic with the non-economic elements, to show how they produced this recurrent social and political movement.

§ 2. Occupying a fundamental place among these non-economic factors is the psychological effect of the right of private property. Among the individual rights which in modern times seem to lie at the basis of any well-ordered society, the right to possess wealth, and to enjoy without interruption the income from such wealth, can hardly be overestimated. The proposition that every person may thus consume or dispose of the fruit of his own labor at will is almost axiomatic in modern civilized society. Like the right to life and liberty, it may be

considered a natural right, in the sense that few persons stop to enquire how it originated, or whether it is just. It is indeed the unconscious hypothesis in any popular definition of justice.

Since it is among the chief functions of government to protect individual rights, any violation of them on the part of the government itself, or on the part of favored persons under the guise of the law, at once becomes intolerable. Indeed, such violations have been fruitful sources of rebellions and political revolutions in all times. Where such a sense of injustice has sufficiently taken hold of the people, the method to be employed for redress will depend largely upon the political habits of the people and upon the character of the government under which they live. If it is of such a character that the machinery for political reform is not available, the grievance may lead to political revolution, but under democratic institutions such as ours there is immediate recourse to legislation, and by this means an economic revolution may be accomplished without any constitutional irregularity. That is, the economic laws of industrial competition, by which the distribution of the social income is normally taking place, may be so interfered with by changes in statutory laws as to alter completely the process of distribution for the time being. This will naturally take place in accord with the theories of justice of the prevailing party in the struggle.[1] Or,

[1] "Resumption changes by statute the relation of debtor and creditor. In the stress of war, when self-preservation is the highest law, government may make any changes in those relations, as it rightfully

vice versa, however patient the people may be in general, when once convinced that existing law is responsible for inequalities in industrial opportunities they soon become clamorous for such changes as they deem appropriate and adequate to correct the evils from which they suffer. The habitual exercise of the suffrage for the correction of such an evil, real or supposed, renders a democratic electorate highly sensitive to a burden which people accustomed to aristocratic or monarchical institutions might endure with submission.

§ 3. Economic distress may take either of two distinct forms. It may consist of the sense of injustice already referred to, or it may arise from an actual want of those comforts which an habitual standard of living requires. Quite apart from the psychological effect of the right to possess wealth, and of more conservative force, is the influence of its actual possession. The effect of the latter influence appears in the point of view and motives of a possessing class as distinguished from the point of view and motives of a non-possessing class.

did when it first issued Greenbacks. But in profound peace what right has government, in deference to the theories of any clique, to enact a law for the sole and specific purpose of making every debt a heavier burden and leaving the creditor richer than he was before?"—WENDELL PHILLIPS, *North American Review*, July, 1878.

Such is often the logic of the pure emotionalist, but observe the force of a point of view. "In war, government may steal; but in peace it should not reimburse." Note the innuendoes in "clique" and "purpose" referred to.

Roscher finds socialistic tendencies inherent in democratic government. See *System der Volkswirtschaft*, Band 1 (*Grundlegung*), S. 185.

Now the right to possess productive wealth and enjoy the income from it is worthless except in so far as an income actually flows from the property possessed, and the value of the productive property is determined entirely by the quantity and continuity of this flow of satisfactions which arises from it. For this reason, the economic motive of the possessor of such a source of income is, in the first place, to secure the greatest income possible from his possession, and, in the second place, to make its continuance sure by every means within his control. On the one hand, his view is purely an economic one, since the productivity of his capital depends largely upon the exercise of his own mental and physical powers. On the other hand, it involves legal considerations, since the continuing satisfaction of his wants from this source depends in a most important sense upon the character and customs of the society in which he lives as these are crystallized into law. It is by law that his right is secured in the first place, and by legislative enactment his income may be either increased or diminished.

The receiver of income, being dependent in the first instance on his own faculties in his function of a producer, as well as that of a proprietor, of wealth, learns to rely upon himself. The competitive system gives him an opportunity and lays on him a responsibility and thereby tends to develop an individualistic rather than a socialistic predisposition. The motive arising from this interest, when acting alone, is ultra conservative, since any change in

economic conditions or statutory law, which has an economic purpose, will alter the conditions of production or exchange; and any such alterations involve risk of loss in the readjustment. These interests and tendencies produce habits of mind and give points of view. This interest of the owner of productive property centres primarily in the concrete forms of income which directly meet his requirements—that is, such necessities, comforts, and luxuries as the standard of life of the particular individual requires. In civilized society, however, of the present time, income is expressed in terms of money, and comes to the receiver not in available concrete forms but as a purchasing power which is transmuted into the required forms by purchase in the market. However much the interests of possessors of property may diverge in concrete cases, their economic interest is identical, wherever it is realized, to preserve the standard money from depreciation.

Now the terms possessors and non-possessors of wealth should be considered in this discussion as rather relative than absolute. Non-possessors include, first, those who are habitually in need of the common comforts which they see others enjoy, and which they have not the ability or willingness to gain by the customary methods of business competition. And, second, and more important for this study, those for whom the normal course of distribution has been disturbed, and whose source of income has been unfavorably affected, by economic or legal readjustment, so that it fails to yield the flow

of satisfaction which under other circumstances might be expected. Large land-holdings or investments of capital have been rendered unproductive by increased transportation cost, or by the competition of more favored localities. Since marginal producers are found in commerce and industry as well as in agriculture, those who were formerly on or near the margin of production in any branch of industry may find themselves dispossessed by a raising or shifting of this margin. As a class, these producers have less to lose and more to gain by a change in economic conditions. Being unable to change the economic laws of the production of wealth, they take advantage of democratic institutions and appeal to the State for legislative regulation that will bring about a more equal, or, from their standpoint, a more just, distribution of the social income. The egoistic motive of this class is directly the reverse of that of the other class. This group affords to the world its most radical agitators of social reform and the general tendency of this agitation is socialistic.[1]

[1] In using the term "socialistic," emphasis should be placed on the word "tendency" which precedes it. It would be a mistake to claim that any large faction in this country when advocating policies of government interference would avowedly abolish private property in the means of production, which is the essence of socialism. It is thought, however, that the successive extension of industrial functions of government would be so subversive of the existing institution of property as to create a strong drift towards socialism. H. Kier Hardie, M.P., in advocating socialism has this to say of municipal ownership as a general policy: "A method of supply so beneficial must grow, and as it grows socialism is brought appreciably nearer. The coming of socialism is inevitable . . . Socialism insures

The possession of property, therefore, as a source of income must predispose a person to resist any effort to lower the purchasing power of a stated income, first, because of his direct economic interest, and, second, because of a conservative habit of mind which would render him hard to convince that such an alteration in the standard was just or advantageous to society as a whole. On the other hand, the lack of possession, or rather the failure of income from possessions so-called, will likely render the person concerned open to conviction to the claim that the existing system of distribution, in so far as it rests on legal enactment, is unjust. Moreover, his personal circumstances giving a point of view, he mingles with those in similar circumstances, he realizes the depression and poverty which he sees, and sympathizes with those who suffer from it. He can advocate a change in the method of distribution with a strong belief that his aim is one of common justice, and, on the whole, one of universal benefit to society in that it will tend to equality of economic conditions in general, as well as effect specific restitution. In fact it is quite possible that the rank and file of those who advocate such measures as a single tax, or socialization of industry, with its attendant partial abolition

freedom and freedom makes for progress."—*Booklovers' Magazine*, vol. i., p. 645.

The degree to which democratic political institutions are liable to extreme demands is shown by the following view: "I lay it down as an undeniable proposition that one of the highest duties of a government is to make money cheap to the people."—Representative WILSON, of Indiana, *Cong. Record*, Apr. 3, 1874.

of private property, or those who would restrict the importation of certain highly useful goods, do so with an honest belief that such legislation would on the whole greatly benefit society. Less often, however, will a person advocate such measures when they would operate directly against his own economic interest, not because he consciously places his own interest uppermost, but because his interest being what it is he is unable to adopt the standpoint of the other side in the argument.[1]

As the lines defining the non-possessing class are relative and indefinite so also they are peculiarly shifting. A large number of men may be thrown out of employment and the possessors of yesterday join the ranks of non-possessors to-day. A succession of scant harvests may coincide with a few years of stagnation in manufacturing, laborers are unemployed and unable to consume, and the market price of grain will scarcely return the cost of seed, transportation, and taxes. The farmer has wrought for nothing; in the sense of the term as here used he has been dispossessed of his property, and aside from any counteracting influences he may be induced to approve a radical change in the distribution of the social income. If taxes or transportation charges or interest can be reduced by law, well and good, if not, let the money which measures his

[1] "Why is it that representatives forget the interests of their own section and stand up here as the advocates of the gold-brokers and money-lenders and sharks, the same class of men whose tables Christ turned over, and whom he lashed out of the Temple at Jerusalem?" —Senator LOGAN, of Ill., *Cong. Record*, March 21, 1874.

income as well as his debts have an increased debt-paying power. The psychological forces here outlined produced the attitude of mind which was ready to accept the greenback or free silver doctrine here and there all over the country, but chiefly in the rural population of the West and South.

The implication in this discussion has been that persons who have suffered economic reverses generally advocated measures of depreciation while the successful ones did not. Here a warning must be given that such was only a tendency and explains the actual situation only in part. The complete explanation is only reached by an examination of all the modifying forces, some of which assisted, others counteracted fundamental tendencies in the minds of each person and community. The important political fact is, that, when economic depression existed, the non-possessing class was relatively large. Not only was it larger but numbered among its new recruits, many, who in the nature of the case, would be especially restive, bewildered, and open to any suggestion, however radical, as to means for relief, when that suggestion was strongly backed by arguments which pointed to injustice exhibited by the class which was, in fact, more favored by the existing conditions of depression.

§ 4. It was suggested in the introductory chapter that the demand for an expanded currency was peculiarly associated with the economic development of the country on the line of the frontier. It has been in the ever moving agricultural West that the times of depression have been most deeply

felt. It is not only because the economic distress was greatest in these localities, as later chapters will show, but also because certain psychological phenomena are associated with the rural conditions, under which newly established and extractive industries are carried on, that these currency movements are most prominent in these localities. We will, therefore, examine the effects of the interests and occupations of agricultural industries upon the intellectual processes, then the effect of rural isolation upon the emotions, to find the probable volitional results.

The first intellectual effect of agricultural industry upon those engaged in it proceeds from its isolation, producing that mental rigidity which has already been discussed. Especially is this true in sparsely settled regions. Here the opportunity for association of any sort is relatively small. Those who may meet and exchange ideas are engaged in the same or similar occupations, for the industries are usually extractive and there is little division of labor. There are here but few influences which break in upon the routine of life. Points of view are few and not wide apart. There is no lack of intellectual strength, for there is great power of adapting means to ends within the field of mental habit, but there is wanting that nimbleness of mind which comes from extended contact with other men and other interests and which characterizes the cosmopolitan community, with its organized industry and commerce.

This statement hardly needs argument or illustra-

tion. No doubt this has been chiefly responsible for the otherwise senseless drift of population to the cities, and especially for the eagerness with which young persons seek the towns for employment. The mind in its plastic period dreads monotony and seeks the social and cultural environment of the metropolis and is rarely satisfied to return to the farm as a permanent home. It is this dread of isolation which has resulted in the present demand for such improvements as the rural mail delivery, the country telephone systems, and the interurban railways. The promotion of these enterprises has met with an enthusiastic response which cannot be attributed to their economic importance, although that is no doubt great, but can be better explained by their cultural importance answering to an imperative demand for a more rapid change of ideas than rural conditions hitherto made possible.[1]

The second, and for our purpose more important, intellectual effect of this environment, especially under conditions which prevail in American agriculture, comes from the community of interest which is apt to prevail in particular localities, and for some purposes this community of interest may extend over very wide areas. To every question of expediency the unconscious standard will be that of the utility of the proposed measure to the industrial class concerned. By this standard every proposition is measured, and in this light every consideration is

[1] For this reason rural populations are more hospitable, more reliable in church attendance, more interested in politics, at least in rallies and ratifications, than people of the city.

given color. The range of induction is relatively narrow, and all concepts are affected by the limitations on this initial thought process. In other words a single point of view results in like conclusions by such a large proportion of the community as to give the stamp of authority to these conclusions. In any country where the interests of the people are chiefly agricultural or extractive the territorial division of labor is especially significant. For instance, over a large area of the southern part of the United States the prevailing industry is the raising of cotton because the soil and the climate are adapted to the growth of that staple. Very early in the history of that region the industrial conditions gave form to the social organization. The most profitable method of cotton culture was extensive rather than intensive. The economic advantage of unskilled labor suited to the climatic conditions established the institution of slavery which had been almost abandoned by the civilized world. Cotton and slavery determined the minor social institutions suited to plantation life, and also gave character to the political views which were so definite and generally adopted within the region interested as to justify the notion of a "solid South." Other regions of great extent have been dominated by the interests of wheat, lumber, or wool producers, and most significant for the purpose of this study has been the peculiar importance which for a time attached to the production of silver. In all these cases the dominant interest has given a point of view; intellectual processes in accord with these

interests have become rigid and the corresponding feelings strong.[1]

It has already been said that when intellectual activity arouses an appropriate emotional state the emotional tension is sustained or increased with the continuance or repetition of the intellectual activity which produced it. In order that this emotional tension may be relaxed it must have appropriate discharge in physical action or in different and diverting intellectual processes. Thus the lonely character of many rural occupations together with the lack of opportunity for communication between the homes of more sparsely settled regions and added to these the solidarity of agricultural interests

[1] The following quotations from the well-known Italian economist, while no doubt stating the principle too strongly for unqualified endorsement are nevertheless substantially true.

"Just as psychology is an effect of physiology, so the moral phenomena are the effects of the economic facts."—E. FERRI, *Socialism and Modern Science*, p. 163, note.

"If it is granted that the economic conditions of social groups, like those of individuals, constitute the fundamental, determining cause of all the moral, juridical, and political phenomena, it is evident that every social group, every individual, will be led to act in accordance with its or his economic interest, because the latter is the physical basis of life and the essential condition of all other development. In the political sphere each social class will be inclined to pass laws, to establish institutions and to perpetuate customs and beliefs which, directly or indirectly, subserve its interests. These laws, these institutions, these beliefs, handed down by inheritance or tradition, finally obscure or conceal their economic origin, and philosophers and jurists and often even the laity defend them as truths subsisting by virtue of their own intrinsic merits, without seeing their real source; but the latter—the economic substratum—is none the less the only scientific explanation of these laws, institutions, and beliefs."—*Ibid.*, p. 165.

unite to afford the conditions favorable for strong and abiding emotional states and for the development of traits of character which are transmitted along with the traditions of a given community from one generation to the next. An objection might be raised to the position taken in this chapter on the ground that rural communities are traditionally conservative. This has been eminently true in religion and politics in both England and the United States. An explanation seems necessary for the radical position assumed by the American rural population on the subject of money.

§ 5. Men cannot be conservative of institutions which are not clearly defined and established in their thought. It is possible for a term such as "property" to apply to quite different concepts in the minds of different men. Certainly the country people of America did not assume the position which they did take, at different times, with a consciousness of its subversive effect on the fundamental institution of property. In fact, they fought for what they conceived to be the old and established principles, just as the radical party in 1776 fought for what they considered the fundamental rights of Englishmen.

To find the character and cause of the rural conception of property we must look again at the conditions of rural life. In agriculture the pursuit of gain is less strenuous than in commerce and industry. The appreciation of the property right in land is more definite than it is in movable possessions such as the products of the soil. But even in

land this appreciation becomes vague as we approach the limit which separates settled area from wild land. In trade and industry on the other hand all articles represent a definite amount of capital and labor and are definitely valued.

With respect to products on the farm, partaking largely of the character of nature's bounty, as well as being the result of labor and capital, there has always been fostered a spirit of give and take. One only needs to hear a farmer describe the character of his favorite neighbor to appreciate this fact. A substantial equality of condition affords less to be gained by a stingy disposition among neighbors than will be gained by each and all through a generous disposition. The hired hand in the Mississippi valley was free to build a cabin on his employer's land. He might also cultivate a garden in the clearing which resulted, and often he was permitted to pasture a horse or cow in the fields. His fuel was to be had for the cutting and the privilege of hunting and fishing on idle days was not distinguished from a right.

Thus the habits of thought which tended toward an equality in condition, both social and economic, operated against a habit of thought which was conservative of property in movable goods, among which the line was not clearly drawn between those which had a market value and those which had none. In this way the ideal of equality may often have tended to subvert the institution of property.

No doubt the tendency was augmented by frontier conditions where the proximity of free land and

the solidarity of interest produced a social and economic situation approaching that in which a community of goods prevails. If these observations are true, the rural population, in displaying this radicalism touching the rights of property, has not been inconsistent with its traditional conservatism. It was simply a test of strength between two ideals and where marketable possessions were small the ideal of equality determined the point of view, and conservatism appeared in respect to the institution of property as fast as property itself came into view.

§ 6. Now a person under these influences of isolation is essentially uneducated however much learning he may possess in particular lines. Every impression on the mind is followed by some sort of reaction, and education is simply the extension of the range of possible reactions or possible variations of conduct. To the uneducated mind essentially diferent causes produce the same or quite similar impressions because the power of analysis is undeveloped, perception is vague, possibilities of reaction are few, and conduct is therefore but roughly adjusted to the real conditions of the situation.

When the daily occupation of a person brings him into frequent contact with other men and other interests, and when his own business is of such a character that he must constantly deal with men, make himself familiar with their interests and business relations; when he must often adopt their point of view and interpret their conduct his emotions are less easily and less permanently aroused. His mind constantly fed with new ideas is flexible, his induc-

tions relatively wide, and his concepts definite and true. Such a person is in the truest sense educated. His mind has a grasp of its own activities on the one hand which enables him to survey and direct his own mental operations. With these operations as a standard he can look beyond his own mental states on the other hand and interpret the motives and conduct of other men.

That sum of psychological forces, or changes, which we call education tends to counteract the morbid tendencies which have been described and may account for the apparent exceptions. We have all known poor men who were not inflationists and emotional men who did not follow demagogues. Real education is a steadying conservative force which tends to prevent radicalism or blind submission to the authority of others. It is a modifying, harmonizing influence the result of experience rather than instruction. Perhaps general education is the most unalloyed benefit which flows from our modern industrial and commercial system.

PART II

ECONOMIC AND SOCIAL CONDITIONS INVOLVED IN INFLATION MOVEMENTS

CHAPTER I

THE ECONOMIC DISTRESS WHICH CULMINATED IN SHAYS'S REBELLION

§ 1. Importance of the colonial period in establishing mental habits and prejudices. 2. Isolation as a feature of colonial life. 3. The character of colonial industry. 4. Conditions which favored speculation. 5. Early popularity of paper money. 6. Prevalence of debt and insolvency. 7. Shays's Rebellion as a result of the combined economic and psychological influences.

§ 1. Having described what appeared to be the most important psychological principles which give force and direction to social movements in general, together with those which apply most directly to a popular demand for an expansion of the currency, we come in the present chapter to examine the first of a series of such popular movements. The period here under examination is that which culminates in the chaotic situation just before the establishment of the Federal Constitution. This period is selected because the simple life and industry which are characteristic of the frontier prevailed throughout. Even on the seaboard, where the population was most dense, the conditions were at this time essentially rural. Moreover the century and a half of colonial experience which had gone before gave an opportunity for the growth of political and economic

theory which profoundly influenced succeeding generations. Here more than anywhere else in history, perhaps, we find a people of inherently strong intellectual power and civilized tastes placed under frontier conditions of the most perfect type, involving rural isolation, industrial simplicity, self-sufficiency, and the hardships and dangers which confronted the colonial pioneers. These industrial and social conditions, continued so long, established habits of mind and permitted the fullest working out of the psychological and moral forces which such conditions produce. In short it would appear to be a period to which we must often hark back in any adequate explanation of many phases of our subsequent history, if the effects of such conditions of life on the development of institutions, as indicated in the preceding part of this study have been correctly described.

§ 2. At the close of the Revolutionary War the geographical distribution of the population of this country had peculiar significance for the economic and social life of the people. Numbering less than the present population of greater New York, they were scattered along the fringe of a continent from Nova Scotia to Florida. With but few exceptions the settlements did not extend inland beyond the crest of the highlands.

This narrow settled strip was cut through by numerous rivers which rendered communication difficult and had a tendency to keep the settlements apart. The north and south extension of the country gave a diversity to the climate of different parts

and this tended further to localize industrial and social interests. There were few national concerns. The States were politically self-sufficient and the settlements were economically so to a great degree.

But few newspapers were printed and these had a very limited and local circulation. McMaster writes that only forty-three came through the Revolution.[1] With few exceptions all were printed in the larger towns and but few went farther than fifty miles from the editor's door. They were not received by the post-office, and it was only by rewarding the post-rider that a place was made for a dozen copies in his portmanteaus. Boston papers would be almost a week old on reaching New York, and they would enter Charleston twenty days after publication. But the time of delivery was unimportant, since the news was of little value. The mails were also inefficient and irregular.[2] It was customary for men whose correspondence was important to write in cipher to secure privacy. The carriage of letters involved so much expense that only the better class could afford the luxury of correspondence.

While communication by post was difficult, travel was more so. Except in parts of New England and near the larger towns the roads were miserable and settlements were often far apart. An average rate of five miles an hour was all that was expected of the stage in New England. South of the Potomac

[1] J. B. McMaster, *History of the People of the United States*, vol. i., p. 35.

[2] After the present Government was established the gross receipts of the post-office for the year 1801 were only $32,000.

conditions were not so good. But hardship and danger were not the only obstacles to travel. The fare by stage was six cents a mile (1796) and hotel accommodations *en route* often added an expense of two dollars per day. One writer describes the trip from Baltimore to New York, two hundred miles, as costing twenty-one dollars. In the case of many articles the cost of transportation to market by land was quite prohibitive. The rivers, therefore, while adding to the difficulties of land travel, afforded, on the other hand, most important highways. Through the gorges of the Susquehanna and its tributaries came the produce of the eastern mountain slopes, and every stream which could float a boat marked a line of settlement. But even by water, travel was precarious. The smaller rivers were often rendered dangerous by floods or impassable by droughts. "A voyage to Europe was comparatively more comfortable and more regular than the voyage from New York to Albany, or through Long Island Sound to Providence. No regular packet plied between these cities. Passengers waited until a sloop was advertised to sail, then provided their own bedding and supplies." [1]

§ 3. If the transportation of products was a costly process from high rates of toll and the labor involved, the quantity of produce to be marketed was proportionally small. The population was almost entirely engaged in agriculture and its subsidiary employments. Methods of production were extremely primitive when viewed from the standpoint

[1] HENRY ADAMS, *History of the United States*, vol. i., p. 6.

of the present, and the small surplus of products was exchanged in the nearest towns for such supplies as the farm and household were unable to produce. The soil was "cropped" year after year with little practical effort made to preserve its fertility. Even in New England, it is said, a farmer would move his barn when accumulation of manure became inconvenient. With the regularity of a celestial each man prepared his land and planted his grain as his father did. His wheat was gathered with a sickle as others had done for thousands of years, and when gathered it was trampled out with horses. Live stock was reared with no more intelligence. Hogs ran at large and fed upon the mast; cows were seldom stabled on the theory that the buffeting of the weather made them hardy. The farmer was his own carpenter, wagon-maker, and smith, although the division of labor appeared in these trades when the settlement was sufficiently dense to make it worth while. Nearly all the clothing was made in the family, as was the cloth from which it was cut. The leather was tanned and the grist ground at a near-by tannery and mill, but the boots and shoes were made by the father during the long evenings of autumn.

If the farmer was a Jack of all trades he was as truly a master of none, and the same might be said of his wife, from the standpoint of the milliner and the modiste. The home-made girl or boy was rustic and awkward; and small and primitive as the towns were then, those who could afford the luxury of town life formed a small class apart.

With the exception of a negligible few, we may

say that the people were all poor in so far as power for luxurious consumption was concerned. While nearly all possessed the physical resources for food and clothing, nearly every family was dependent upon its own labor for the preparation of them. Only in one respect was the farmer of the Revolution rich, and that was in land. Especially in the South was this true, where the plantation system was early developed and the institution of slavery gave rise to a well-defined aristocracy resting upon the possession of land and slaves. But North and South, all possessed the personal qualities of ambition, hope, and self-reliance. These stood in good stead. Though like the land they were not assets that would satisfy the conditions for modern credit they were not without commercial significance in those days; so that the colonial farmer was nearly always in debt, always being "trusted."

The psychological effect of this isolation, of the simple manner of life and the narrow range of interests, has been discussed in a former chapter. People knew but little of what went on in other communities than their own. News was carried through private correspondence and by passing travellers, and rumors were colored or magnified according to the character of the narrator.[1]

[1] Commenting on the Massachusetts disturbances Jefferson writes in January, 1787: "The way to prevent these irregular interpositions of the people, is to give them full information of their affairs through the channel of the public papers, and to contrive that these papers should penetrate the whole mass of the people. . . . Were it left to me to decide whether we should have a government without newspapers or newspapers without a government I should not hesi-

§ 4. Notwithstanding the difficulties with England which led to revolution the American Colonies were relatively prosperous, and ever since the final close of the wars with France settlement had been rapid. Checked by the Revolution, the tide of immigration began again with its close.[1]

The ease with which land could be obtained, the political and social advantages which attached to landed property, and the local credit which such holding gave, all combined to continue the importance of the agricultural system and offered a prize to even the least ambitious. Moreover, the steady growth of the population produced a corresponding improvement in land values, so that a rise in value of land was the normal condition rather than an exceptional one. The purchase of land therefore was not looked upon as a speculative transaction involving risk, but rather as an indication of thrift, such as the establishment of a savings account would be considered to-day. Not only were savings generally invested in land, but this certainty of advance offered a constant temptation to go into debt for land.

Another influence which affected the debt-making

tate for a moment to prefer the latter. . . . If once they [the people] become inattentive to public affairs, you, and I, and Congress, and Assemblies, Judges, Governors shall all become wolves."—H. S. RANDALL'S *Life of Thomas Jefferson*, vol. i., p. 263.

[1] The growth of population is represented by the following approximations:

1760	1,600,000
1775	2,500,000
1790	4,000,000
1800	5,300,000

EDWARD CHANNING, *Student's History of the United States*, p. 192.

tendency of these times was incidental to the use of barter in exchange. We have seen that the need for capital was a most pressing one. This condition prevented the general circulation and accumulation of coin, since the wealth of the country, in so far as it was invested in specie, was relatively unproductive. That is, so long as a less expensive method of making exchanges could be devised specie would not be kept in the country, but as soon as received in the course of trade it would be passed out again in payment for much needed articles of consumption or instruments of production.[1]

In the absence of coin the alternative means for affecting exchanges were, by some kind of a credit system, based on the products of the farm, either actual or anticipated, or, more uncertainly upon the simple growth of land values with the increase of population. The products which formed the purchasing power of the farmer, then as now, came into his hands periodically, but his wants were perennial. The merchant therefore made advances, trusting him until his crop was ready for market, then bought the crop and applied it to his customer's account; very often it was no more than enough to discharge the debt and the creation of a new debt .would at once begin. It may be needless to add that the merchant in the small town was not a capitalist but was "carried" in turn by the stronger merchant and importer in the city, and often he in his turn rested upon the foreigner who really advanced the capital for this whole credit system.

[1] J. L. LAUGHLIN, *Principles of Money*, pp. 391 and 407.

One other cause should be mentioned as contributing to the prevalence of debt, and this was more purely a psychological one. The population of the country steadily drifted westward, taking up new land as they sold their partially improved farms to the more recent arrivals. In this movement the settlers were passing from a situation of relative comfort to one of relative deprivation, a change quite analogous to that which they made on coming from Europe, carrying with them a standard of comfort the provision for which could not be supplied in their new situation. This standard of living constantly impelled them to a scale of expenditure which exceeded their production. They lived in the future, as it were, continually discounting their material prospects.

§ 5. In order that a man might obtain the consumable goods or the capital he needed, he must offer exchangeable wealth of equivalent value, either as a direct return or as security for a future return. It was not always possible to obtain a direct loan of the goods required of the merchant on the plan of the credit system described in the preceding section. The borrower as a preliminary step must secure money with which to make payment. It is clear that his power to purchase, under these circumstances, was only limited by his power to borrow, and his power to borrow was strictly limited by the amount of exchangeable wealth which he possessed, or was supposed to possess. The poverty of the people thus manifested itself as a limitation on their purchasing power, which was, in the case of each

individual, equivalent to a scarcity of money. The general poverty, therefore, was felt and described as a general scarcity of money. Moreover, prevalent economic theory taught that the wealth of a country was measured by the quantity of money that that country possessed, and governments generally adopted such policies in the regulation of trade as were thought to promote the importation of specie.

From the point of view of either theory or of experience, therefore, it was quite plausible to attribute almost any sort of general business depression to a deficiency in the money supply of the country, since such depression made itself felt in a decline of purchasing power. During the depression from 1893 to 1897 it was not uncommon to hear that there were plenty of goods to be exchanged but that there was not money enough to effect the exchanges. "Many are willing to buy and pay fair prices, but they have no money,—they cannot borrow it, although they have large stocks of goods to hypothecate." This common argument overlooks the fact that it is the immediate market value of the goods rather than their absolute quantity that determines the borrowing power, and thus the purchasing power of their owner.

It was a matter of no consequence to the colonial borrower whether the money he obtained was in specie or paper if it was acceptable to his creditor or to the merchant from whom he wanted to purchase. An effort was made, therefore, to meet this demand for more money by the issue of notes. Instead of providing means for the redemption of these notes

their character was thought to be secured, in many cases, by the cheaper device of making them a legal tender.

The unwillingness to invest a portion of the country's wealth in coin for purposes of exchange, and the habit of deferring the settlement of private debts because it necessitated some immediate sacrifice, made a resort to paper money most easy and natural. Moreover, the successive wars in which the colonists engaged, involved the colonial governments in debt. In response to the popular demand for money and hatred of taxation, these debts often took the form of circulating notes. For nearly a hundred years before the Revolution the colonies had indulged freely in the issue of paper money, and experienced from time to time the characteristic effects of a depreciated currency. Some of it was issued by the colonial governments, some of it by private companies with or without government sanction.

Through this long period we find a habit well established of confusing the fiscal function performed by a government note as the evidence of a debt, with the economic function of the same note as a medium of exchange. This confusion was destined to exert a far-reaching influence on American financial theory, and has been largely responsible for the vacillation and inconsistency which have characterized our practice in matters of both currency and revenue, coming down to the present time. The combination of the interests of those who would get revenue for the Government and escape the unpopularity of an immediate levy of

taxes, with the interests of those who think they would profit by an expansion of the currency, or who believe that such an expansion tends to stimulate trade, has always been a powerful combination, able to secure a wide popular hearing for its proposals.

In 1763 the British Government forbade the issue of any more paper money by the colonial governments. The Americans had been so long accustomed to this form of currency and the interests of so many would be adversely affected by the alternative of a return to specie that this order of the home Government was denounced as an act of oppression. Franklin, at that time in England, wrote an elaborate defence of the colonial monetary system which contained what may be presumed to be a correct statement of the views of the more intelligent class in the colonies.[1] The denial of the right to make paper money was not the least of the grievances which led to the Revolution. It is not strange, therefore, that in the adoption of means for the conduct of the war the States as well as Congress exercised to the uttermost this recovered privilege.

[1] "Their [the English bank-notes] being payable in cash, at sight, by the drawer, is indeed a circumstance that cannot attend the Colony bills for the reason that the cash is drawn from them by the British trade. But the legal tender being substituted in its place is rather a greater advantage to the possessor; since he need not be at the trouble of going to a particular bank or banker to demand the money finding (whenever he has occasion to lay out money in the Province) a person that is obliged to take the bills." He goes on to show that paper has not fallen in the colonies, maintaining a constant relation to goods, while silver has greatly advanced because it was in excessive demand for export.—SPARKS'S *Works of Benjamin Franklin*, vol. ii., p. 347.

In summary it may be said that the normal condition of the people was one of isolation. Their industry and commerce were so simple, and limited in extent, that their experience taught them but little of the economic principles and forces which operate more visibly in a complex society. These normal conditions determined the mental bias, the beliefs, and prejudices which form the background for a study of the economic distress which came upon the people a few years after the war. From experience, and from kindred interests, they considered agriculture to be a vocation of a superior character. The people had confidence in the farming, rural class, but looked with suspicion and fear upon merchants, lawyers, and money lenders.[1] They put too much reliance in the increase of wealth through the growth of population and the consequent increase in demand for land and farm products. They measured their power to pay debts not by present rate of production but by these anticipated values, and thus they kept the price of land above what actual production would justify.[2] Finally they believed in the use of paper money almost universally, and only the more wealthy and

[1] For the popular view of the importance of agriculture see HAMILTON'S "Report on Manufactures," *Works*, vol. iii., p. 192.

[2] "The proportion of debt naturally increases as the trade increases, but the improvement and increase of estates in the colonies has been in a greater proportion than their debt."—SPARKS'S *Works of Benjamin Franklin*, vol. ii., p. 343. And again in 1785, "I find all property in lands and houses augmented vastly in value [since the war], that of houses in towns at least fourfold."—*Ibid.*, vol. x., p. 235.

intelligent would insist strongly upon its parity with specie, even these relying upon its legal-tender quality in lieu of redemption.[1] The errors that found their way into the beliefs and prejudices of the people were the result of the limited range of induction which the frontier conditions afforded. These could only be corrected by a complete experience of their evil effects.[2]

§ 6. If the average American was poor before the War for Independence, his condition was much more deplorable after its close. Six years of devastation, with thousands of men unproductively employed, had greatly reduced the wealth of the people. We would expect them to be relatively economical in expenditure but there is much evidence to the contrary. War has a tendency to breed extravagance, idleness, and speculation. The bonds of social custom are loosened and moral restraints are apt to be thrown aside.

In the later years of the war the armies of British and French had created an important demand for supplies, and had brought into the country considerable quantities of coin. This coin was left with

[1] "The utility of this [paper] currency became by time and experience so evident that the principles upon which it was founded were never afterwards much disputed [1739] . . . Though I now think there are limits beyond which the quantity may be hurtful." Franklin does not indicate what these limits are but suggests in another place that the extent of wealth and population may serve as a guide.—SPARKS'S *Works*, vol. ii., p. 254.

[2] "The people must feel before they can see, consequently they are brought but slowly into measures of public utility."—Washington to Fairfax. JOHN MARSHALL'S *Life and Works of George Washington*, vol. v., p. 93.

the people in the place of their corn and cattle and other commodities of the most necessary sort. In harmony with the prevailing belief this abundance of specie and the high prices, which the abnormal demand and scant supply produced, gave an appearance of prosperity notwithstanding the fact that the high prices were indeed the best evidence of the scant supplies and prevailing poverty.

The trade with England which had been suspended during the war had quickly revived on the return of peace, and the products of the looms, workshops, and distilleries of that country came in large quantities. Since the Americans had few commodities to offer in exchange for these imports and were shut out from the compensating trade with the West Indian colonies, the silver which should have gone to pay debts, or to buy the needed instruments of production, was soon drawn off in the payment for imports.[1] This extravagant expenditure was rendered more easy by the suspension of the courts, which had taken place in many localities early in the war, and still continued. This dissipation of resources and increased indebtedness made the condition of the people worse by 1786 than it had been at the close of the war, and it happened that the realization of their condition accorded in time with the disappearance of the specie. The reopening of the courts for the collection of private debts, and the levy of high taxes, ushered in a period of bankruptcy and commercial prostration.

[1] WILLIAM HILL, *First Stages of the Tariff Policy of the United States*, p. 64.

The habits of mind developed by the long experience with paper money, the association of paper issues with political liberty, the knowledge that depreciated paper would bring high nominal prices and facilitate the scaling of debts, which the suspension of the courts had allowed to accumulate, altogether constituted an element of suggestion which led to a peremptory demand for paper money as a means for relief. On the other hand the association of a specie standard, and a rigid enforcement of contracts, with British oppression, aroused the people to an attack upon the State governments which had now assumed the rôle of the oppressor in the reopening of the courts and the refusal of a paper legal tender. John Marshall, writing of the general situation, says:

"The discontent and uneasiness, arising in a great measure from embarrassments in which a considerable number of individuals were involved, continued to become more extensive. At length two great parties were formed in every State which were distinctly marked, and which pursued distinct objects with systematic arrangement. The one struggled with unabated zeal, for the exact observance of public and private engagements. . . . The other party marked out for itself a more indulgent course; viewing with extreme tenderness the case of the debtor, their efforts were unceasingly directed for his relief. . . . They were uniformly in favor of retarding the administration of justice; of affording facilities for the payment of debts; or of suspending their collection and remitting of taxes.

"In many States this party constituted a decided majority of the people and in all of them it was powerful.

The emission of paper money, the delay of legal proceedings, and the suspension of collection of taxes were the fruits of their rule wherever dominant. . . . Instead of making the painful effort to obtain relief by industry and economy many rested all their hope on legislative interference." [1]

§ 7. This state of mind was not confined to any particular locality but reached its most tragic culmination in Shays's Rebellion in Massachusetts. There a great amount of litigation had accumulated. The laws were still harsh. The impecunious debtor was liable to imprisonment, burglary was punishable with death, and penalties for other forms of lawlessness and delinquency were correspondingly severe. As a means for immediate relief a movement was set on foot to prevent by force the holding of courts.

The Legislature had imposed customs and excise taxes which were expected to meet the interest on the State debt, but in addition to this they attempted, by direct taxes, to pay the instalments of the principal as they fell due, together with that portion of national expenditure for which Congress had made requisition upon the State. The collection of these current taxes, in addition to others for which the people were in arrears, along with the pressure of private creditors, whose suits had lain

[1] JOHN MARSHALL, *Life of George Washington*, vol. v., pp. 99–101. Of the same situation John Adams writes: "Exhausted by the war and the derangement of all useful industry the forms which executed justice soon became equally hateful with those which had labored to impose a tyranny. It was the upheaval of the poorest class to throw off all law of debtor and creditor."—C. F. ADAMS, *Life and Work of John Adams*, vol. i., p. 441.

dormant for a time, precipitated the crisis.[1] Conventions were held, turbulent addresses were made, complaints were catalogued, and in many cases magnified and distorted.[2] Fundamental difficulties were overlooked, and demands were made for redress of superficial grievances. Some of these demands may have been justified on grounds of public policy, but more of them were wholly beside the point. The complaints most enforced were against the extortion of lawyers, the aristocratic character of the Senate and of the city of Boston, which was thought to control the Legislature, the concession to Congress, the high salaries of officials, and most of all the scarcity of money and high taxes. "Nor were there wanting artful, restless, discontented individuals, deceivers rather than deceived, such as always step forth on such occasions . . . to inflame the public discontent and to flatter popular delusions."[3] The movement chiefly involved the rural population of the western counties with the smaller interior towns. General Knox wrote that "the number of these people amount in Massachusetts to about one fifth part of several populous counties and to them

[1] Taxes due in 1786 in Massachusetts were estimated by Rufus King to amount to nearly a third of the income of the people.—*Life and Correspondence of Rufus King*, vol. i., p. 190.

[2] The salary of the governor, £1100, was reported as being as high as £60,000 in some of the inflammatory literature.—*Massachusetts Gazette*, July 3, 1786. Quoted by J. P. WARREN, *Shays's Rebellion* (in preparation).

[3] RICHARD HILDRETH, *History of the United States*, vol. iii., p. 473. For a contemporary statement of the causes of this rebellion see letter from General Lincoln to General Washington, A. B. HART, *American History told by Contemporaries*, vol. iii., p. 191.

may be collected people of similar sentiments from the States of Rhode Island, Connecticut, and New Hampshire so as to constitute a body of about twelve or fifteen thousand men. They were chiefly of the young and active part of the community."[1]

Shays's Rebellion was simply a revolt of the non-possessing class unwilling to face the fact of their poverty. Ignorant of the real causes of their distress, and confusing political liberty with a certain degree of license, they felt aggrieved, and taking advantage of a form of government which they were in a measure able to control they sought to accomplish a redistribution of wealth by the convenient and effective resort to a depreciated currency.[2] The heavy taxes could not have been a real cause of the distress which lay behind the movement, for the great body of insurgents paid but little taxes. This burden fell in fact upon the other party. Money was scarce, no doubt, but a scarcity of the medium of exchange could cause no great hardship where there was so little to be exchanged, and among a people so familiar with the devices of credit and barter. These inconveniences, together with the complaint of high salaries and aristocratic tendencies and others of like character, only served to lengthen the list of grievances and thus aid in fomenting insurrection.

[1] Knox to Washington.—A. B. HART, *ibid.*, p. 190.

[2] "New governments have not the aid of habit and hereditary respect and being generally the result of preceding tumult and confusion do not immediately acquire stability or strength."—*Correspondence and Public Papers of John Jay*, vol. iii., p. 205.

Shays's Rebellion quickly passed into history as a relatively unimportant episode. The economic distress, which served as its immediate and *prima facie* cause, also passed away, as times of depression always give place to periods of relative prosperity. But the really fundamental causes such as the tendency to speculation, the belief in a depreciated currency as an effective and legitimate means for stimulating business, the willingness to contract debts, and later to scale them down through legislative action, and finally a disposition to trust and favor the so-called common people, coupled with a dread and suspicion of an ill-defined money power, all remained embedded as it were in men's minds to be passed on from the fathers to the children and to break out again with more serious consequences in succeeding generations.

CHAPTER II

BANK-NOTE INFLATION IN THE MISSISSIPPI VALLEY—SOCIAL CONDITIONS

§ 1. The rise of commercial banking and the disregard of sound banking principles. 2. The movement of the frontier from the Alleghanies to the Mississippi. 3. Social conditions in the West which affected the character of the people. 4. The growth of sectionalism and its moral and political effects.

§ 1. As the revolutionary period was coming to a close, modern commercial banks first came into vogue.[1] These differed from the colonial loan-banks in that they not only issued their notes, which should be finally paid from the assets for which the notes were themselves exchanged, but the new banks, when properly organized, had in addition a cash capital which enlarged the basis for the credit which the notes represented. They accepted deposits transferable by check, and made their notes redeemable on demand. For these combined liabilities—notes and deposits—they were expected to maintain a specie reserve, as their capital enabled them to do, always adequate to the

[1] See *Rise of Commercial Banking in the United States*, A. O. ELIASON. The first bank of this kind is said to have been the Bank of North America, founded in 1781. The system was already well developed in England.

requirements of redemption. By the employment of the bank's capital in this manner the note holder was not only protected against ultimate loss by the failure of the bank, but the parity of the notes with specie was made sure by the frequent return of the notes to the bank's counter for redemption.

Conditions which led the people to demand paper money in Revolutionary times still existed. The growing industry and commerce increased the need for a medium of exchange, while capital was grudgingly spared to serve the purpose of a specie circulation. Moreover the issue of bills of credit was forbidden to the States, and it was doubted whether Congress had any such power at that time. The check and deposit system, so important to-day, was not adapted to the needs of a new country, sparsely populated and containing but few towns, small and widely separated.

The new banks were welcomed, their notes were in great demand. The one obstacle to their rapid increase was that very scarcity of capital which they were intended to alleviate. That is, the institution which should furnish capital to industry and commerce, itself required capital not only for its establishment but for its continuous operation. It was not long until Yankee ingenuity contrived to dispense with the cash capital for the organization, and also for the specie reserve for the maintenance of a bank. When these new plans came well into vogue the period of the bank mania had begun.

Taking its rise in New England, the mania spread into New York and Pennsylvania and farther West,

obtaining its most interesting development in the Mississippi valley, after the close of the first Bank of the United States in 1811, and continuing until the panic which followed close upon the reorganization of the Second Bank of the United States in 1837.[1]

This period of twenty-five years was marked by successive waves of unsound banking, each wave presenting these characteristics: inflated credit and extended debts, with rising prices and apparent good times; the contraction of issues with enforcement of specie payments; fall of prices, collapse of credit, and failure of debtors. Each wave cast up its share of financial wreckage only to be lost from sight and forgotten in the rise of the next. It is the purpose of this chapter to discover the social forces, economic and psychological, which were responsible for these peculiar phenomena which characterized this period in the commercial development of the country.

§ 2. When the nineteenth century opened, the frontier was still in the Alleghany Mountains, with three small areas of settled country on the western side. The largest of these Western settlements was in the southern half of the valley of the Ohio, including central Kentucky and northern Tennessee, another was about the upper course of the Ohio,

[1] Unsound banking of the worst sort prevailed in New England until the crisis of 1809. The Massachusetts Legislature then adopted rigid measures to correct the system, with good results. New England passed through the crisis of 1814, therefore, without suspension.—W. G. SUMNER, *History of American Currency*, p. 62.

while a smaller number of pioneers had followed the route of the Mohawk to the shores of Lakes Ontario and Erie. The new West was just beginning to assume national importance in that Kentucky and Tennessee had been admitted to the Union and Ohio was ready to follow.

Beginning at the Atlantic coast, two hundred years before, the population had worked westward to the headwaters of the rivers which empty into the ocean, and which afforded means of travel and transportation eastward. In this period of six generations the number of the people had reached five and a third millions and they occupied two hundred and eighty thousand square miles of territory. Along the whole frontier of twenty-eight hundred miles the density of population was comparatively uniform. The stern resistance offered by strong Indian tribes gave to this margin of population the character of an advanced guard of an army and every step in the westward movement was an actual conquest. West of this relatively dense frontier all was wilderness, occupied by roving bands of Indians and visited by the more adventurous traders and trappers who were located at such important posts as Detroit, Fort Wayne, Kaskaskia, and Vincennes.

The next generation saw a remarkable transformation in this western country, a shifting of population and of interests, with important social consequences. The census of 1840 shows a total number of over seventeen million people, an increase of more than two hundred per cent. since 1800. The settled area covered eight hundred and seven thousand square

miles, with a percentage of increase almost as great as that of population. The centre of population had moved from the vicinity of Baltimore, many miles east of the mountains, to a point, in longitude equal to the western line of Pennsylvania, and had shifted slightly southward.[1]

From the south the Indians had been removed, and their country had been opened for settlement. From the north other tribes had been taken to their lands in the Indian Territory. From northern Illinois to the Gulf, settlement had practically reached the Mississippi at all points, while large areas on the western side had formed the States of Missouri, Arkansas, and Louisiana. In all, the West had contributed eleven States to the Union as against a total of fifteen lying east of the mountains. The latter group includes New York and Pennsylvania, which had many interests in common with the West, as had also the Carolinas, Virginia, and Georgia.

The controlling influences in this transformation were, no doubt, the purchase of Louisiana and the opening of the Mississippi and its tributaries under American control. The result was to turn the faces of the people westward as they had never been turned before.[2] They no longer thought of the seaboard as the only outlet for their produce. "The great valley of the West was their home, the source

[1] For map showing the western limit of settlement in 1800 and in 1840, see frontispiece.

[2] A valuable discussion of this movement of population by decades is given in the 12th Census, vol. i., POPULATION, *Progress of the Nation.*

of prospective wealth and power." [1] In this direction lay a vast extent of country of great fertility, with rivers providing easy access by way of the Gulf to the markets of the world.

By the end of a generation, therefore, the West was no longer a trackless wilderness, but the term stood for a new element in American life, a new democracy, which was destined to give in large measure its own peculiar character to American ideals and social institutions. It is in the development of this new character, and these new democratic institutions, with the economic conditions on which both rested, that the explanation of the western bank mania is involved.

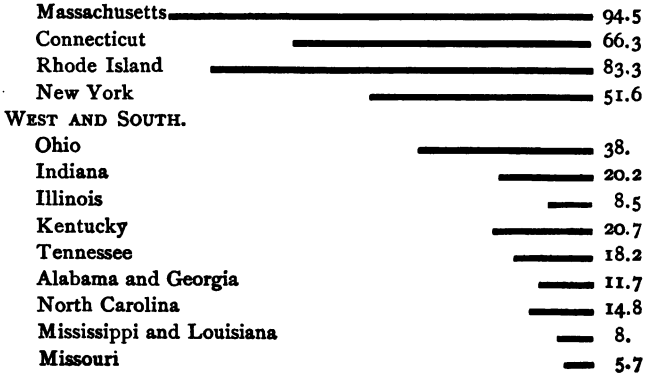
§ 3. The sparsely settled area was much more extensive than was that of revolutionary times. The pioneer conditions prevailed a much shorter time, and the settlements were constantly in a state of change. This was the case, not only because the development of the country went on so rapidly, but also because of a marked spirit of unrest among the people that was not found to the same extent in early New England. This kept the pioneer moving as the frontier moved. Before the stumps were gone from one clearing he was off to the cheap lands and hard labor of another, and newer, settlement. The "squatter" had become a factor in American society. The history of many families describes a settlement in eastern Tennessee which was soon abandoned for a new home on the Ohio. After a

[1] F. J. TURNER, *The Significance of the Frontier in American History*. Report of American Historical Association, 1893.

few years they moved to Indiana and thence to Illinois.

While the nation was still a rural one, there had been a considerable increase in the density of the population of the older States.[1] The growing importance of industrial and commercial pursuits in the East had developed a strong tendency toward town life in that section. The population of New York City had grown from sixty thousand in 1800 to two hundred thousand in 1830, and three hundred and twelve thousand in 1840. Philadelphia had grown from a city of seventy thousand to one of two hundred and twenty thousand in 1840; Baltimore from twenty-six to one hundred thousand, and Boston from twenty-four to ninety-three thousand, in the same time. The South had not developed in the same direction. Charleston, Savannah, Richmond, and Norfolk had increased in size but only as they

[1] The Census of 1840 shows the population per square mile as follows:



shared in the general increase of population of the States. New Orleans was the largest city of the West. It contained only forty-six thousand people in 1830, but under the influence of the westward movement sprang up to one hundred and two thousand in 1840. Cincinnati, St. Louis, and other thriving towns were centres of local trade and more important river traffic. The new West and Southwest, together with the older South, presented the same thinly settled rural character that belonged to New England at the time of the Revolution.

The settlers in the Mississippi valley and the South were mostly American-born. Out of a total population in these sections of over seven millions, less than half a million were of European birth. The English farmers did not take kindly to the hardships of frontier life. The Germans were more successful, but generally remained east of the mountains. It was the real American of colonial ancestry who blazed his way into the forest, cleared a few acres of land, built a rough cabin with an earthen floor, suffered all the hardship and danger of a soldier on the march with this additional one that he saw his wife and children suffer even more than himself. "The chance of being shot or scalped by Indians was hardly worth considering when compared with the certainty of malarial fever, or the strange disease called milk-sickness, . . . which wore out generation after generation of women and children on the frontiers, and left a tragedy in every cabin."[1]

[1] HENRY ADAMS, *History of the United States*, vol. i., p. 58.

Isolation was not so extreme as formerly, newspapers were not so rare and correspondence not so costly and uncertain, but the difficulties of travel and communication were serious enough in the new region. The telegraph had not yet appeared; the railway was in its infancy, and until late in the period it had not affected this region except in a speculative way. While the public-school system was destined to be heartily adopted west of the mountains, along with an extension of the suffrage, as in line with ultra democratic ideals, it was the next generation who should profit by the schools, and much illiteracy remained.[1]

On the other hand, the East was experiencing a great literary and scientific awakening at this time, through the teaching of such men as Dana and Gray and the writings of a score of brilliant authors. As a condition for all this, the East had been accumulating wealth, step by step with its development in industry, commerce, and urban life. The accumulation of capital was a condition precedent to education and culture, and with all these had come conservatism. Politically this conservatism had arrayed itself on the side of the Constitution, of Hamilton's financial policy, of both the United

[1] Of free schools in the West in 1830 Harriet Martineau writes that Pennsylvania provided for 9000 children at a cost of $16,000. Ohio's school tax amounted to $10,000 and 3000 children were taught. Indiana had no public schools, but measures were on foot for their establishment; Illinois none. In Kentucky, the *Louisville Advertiser* claims for that city the only public school south of the Ohio. No evidence appears to shake this claim to monopoly.—*Society in America*, vol. ii., p. 398,

States Banks, and of a protective tariff, while it opposed slavery and the sale of the western lands on the easy terms which the people of the West demanded.

Against this conservative element, characterized as Federalism, was arrayed, politically, industrially, and socially, the new democracy of the West, a type of society which was determined by the situation in which the people lived. The rich were few and found little opportunity for ostentation; the poor enjoyed an abundance of the necessities of life which nature and labor afforded. There was practically one standard of living for all in the new region. Because they enjoyed similar comforts and bore the same hardships the people were socially equal, and with this came political equality and universal suffrage. They were bold, independent, energetic, and versatile, readily adapting themselves to circumstances, though withal, uneducated through reading or travel, or through the broadening influence of cosmopolitan life, unable to penetrate below the surface of things with which they were unfamiliar.

Their emotional tendencies were strong, generous, impulsive, and hospitable; they liked to visit each other and to entertain. They were intensely religious, and wandering preachers went from place to place conducting camp meetings, which called forth the whole neighborhood for miles around. The gospel that they preached was an austere one and a sharp line was drawn between the evil and the good, and the business of the local tavern and the country fiddler would be, for a time at least, seriously

disturbed. The same emotional disposition was carried into politics, and with the rule of the Western democracy first came the conventions, rallies, and ratifications as important features in political campaigns.

Their lives were full of work and hardship, but their spirit was peculiarly buoyant. They broke away from fixed institutions, first by the necessity of their situation, and second from choice; moved by that universal impulse of the uneducated person which impels him to call everything nonsense which he does not appreciate or understand. They despised or ridiculed titles or marks of respect, polished manners, or well-fitting clothes. They affected more or less a rustic air, a disregard for details and exactness in speech or action. In this respect the pioneer of the Mississippi valley differed from the Colonial settler, who clung to the institutions of his old English home, and in so far as his circumstances would permit continued his former mode of life. They differed also from the planters of the older South, where a rural aristocracy continued to cherish traditions and lineage.[1]

They knew little of the ways of other people than those with whom they came into contact, and cared very little about the institutions and customs of Eastern society. Their principles were the pure American principles, sound and worthy to be cher-

[1] In 1808 the Legislature of Kentucky, a State best typifying the West, passed an act forbidding the reading of English decisions rendered after 1776 "as authority in the Courts of this Commonwealth."—W. G. SUMNER, *Life of Jackson*, p. 154.

ished. All others which tended to circumspection were foreign, aristocratic, and dangerous to liberty, whether they came from Europe or from Massachusetts.[1] Here was one of the secrets of Jackson's popularity. "Jackson is one of us," the western man would say; "he is not proud, nor rich, nor does he care for style and nonsense. He is strong, honest, and outspoken. We can trust Jackson." The stories of him which got the widest circulation show him tramping on some conventionality, shocking the taste of "foreigners," or of "easterners." Even to-day the term "silk-stocking" is one of reproach with "the people."

§ 4. It has been shown in a former chapter that the isolation of industrial and social groups prevents mutual understanding and sympathy. Conformity to the standard of the group often appears to have been the only basis of religion and morals. Out of his group the individual is in a measure free from restraint. In the attitude of one group towards another ignorance and the instinct of self-preservation develop suspicion. Suspicion and misunderstanding ripen into prejudice. This was plainly indicated in the region, and in the period, under review. The people of one section often looked upon those of another not only as foreigners but as open enemies, who had few rights which they were

[1] "But, sir, it [the renewal of the Bank charter] will further the views of Federalism, by increasing their power, and assist them in overturning the present system of government, on the ruins of which they will calculate on raising one more congenial to their purposes."—Representative Desha, of Kentucky, 1811. CLARK & HALL'S *History of the Bank*, p. 186.

morally bound to respect. While the population was always shifting within the group, there was little intercourse between East and West, or between North and South; national ties were still weak, and international bonds were more lax.[1]

It has been said that the standard of the group is apt to be the basis of morals. More important perhaps is the fact that the standard of the group in a democracy becomes the law. The law is the will of the majority. While the minority have rights which the majority are bound to respect, this same majority defines these rights and interprets the law. Whatever, therefore, affects the interest of the majority modifies their point of view, and justice is administered accordingly.[2]

From the beginning of the country there was growing a strong feeling in the East of dread and

[1] Harriet Martineau writes in 1837: "Hatred is not too strong a term for this sectional prejudice. Many a time in America have I been conscious of that pang and shudder which are felt only in the presence of hatred. I question whether the enmity between British and Americans at the most exasperating crisis of the war could ever have been more intense than some that I have seen flashing in the eyes and heard from the lips of Americans against fellow citizens in distant sections of the country. . . . I have been told that New England people are all peddlers or canting priests; that the people of the South are all heathens; and those of the West are barbarians. . . . Trifling as some instances appear of the manifestation of this puerile spirit it sometimes, it always, issues in results which are no trifle. . . . It cannot co-exist with a generous patriotism, one essential requisite of which is an enlarged faith in fellow citizens." She goes on to explain that travel and acquaintance would correct the evil.—*Society in America*, vol. i., p. 137.

[2] *Cf.* D. G. THOMPSON, *Politics in a Democracy*, p. 13 *et seq.*

suspicion of democracy. It was in 1804 that Cabot wrote: "I hold democracy in its natural operation to be the government of the worst." Fisher Ames, in 1803, said: "Our country is too big for union, too sordid for patriotism, too democratic for liberty, . . . a democracy cannot last, its nature ordains that its next change shall be into a military despotism." In another place Cabot recommends a qualification for the New England suffrage of "two thousand dollars' value in land." Massachusetts still required a small property qualification. Thus the people whose parents had taken part in Shays's Rebellion, to the extent that they remained in the East, had gathered wealth and learning, and were crystallizing into the conservative element of American society, who socially despised and politically feared the uncouth inhabitants of the West, where governors and judges were being elected by popular vote.

It was this conservative class who became the creditors of the West and South. The debtors on their part with little to lose and all to gain, not burdened with traditions nor punctilious habits, when oppressed by economic conditions which they could not understand, attributed these conditions to the oppressive arts of their creditors, who naturally wished to collect as the security declined. With no pangs of conscience they turned to the State Legislatures and demanded relief, even to the extent of repudiation in many instances. The holder of American bonds, whether he lived in England or in New England, was learning from bitter

experience to look upon the democratic American character as fundamentally corrupt.[1]

This new social order of the West, self-sufficient and self-opinionated, at the same time feared as a political force and despised as of a lower intellectual and social station, had grown so rapidly in national politics that in one generation it passed from practical insignificance, through a position in which it held a balance of power, to one of complete ascendency, in the rule of its most illustrious leader, Andrew Jackson.

Our special interest attaches to the principles which this social class developed as a basis for their business relations, their theories of credit, property, private contract, and the relations which they thought proper for the State to sustain to its members in their economic affairs.

[1] As it appeared to the West: "Our acts of limitation [relief laws] are wholly disregarded [by Federal courts], and the non-resident landholder, who has perhaps never paid the first shilling of his just taxes for the support of our government [state], is permitted to progress with his action against the honest citizen for land which he has purchased with his money, improved by his labor, defended with his arms, and paid taxes upon to his government. . . . The faithful citizen who has thus performed every moral, social, and civil duty is upon eviction charged with rents upon improvements he himself has made. And thus does the Commonwealth suffer those who have improved, supported, and defended her to be stripped of the proceeds of their life's labor, and made the unpitied victims of heartless speculation and assumed power."—Message of Gov. Desha, of Kentucky, to the Legislature, Nov. 7, 1825, NILES'S *Register*, vol. xxix., p. 224.

The English view of the American character was no doubt fairly stated by Tom Moore who described it as

> "Rank without ripeness, quickened without sun,
> Crude at the surface, rotten at the core," etc.

HENRY ADAMS, *History of the United States*, vol. i., p. 122.

CHAPTER III

BANK-NOTE INFLATION IN THE MISSISSIPPI VALLEY (*Continued*)—ECONOMIC CONDITIONS

§ 1. Conditions which directly gave rise to the banking mania. 2. Methods of organizing and operating the State banks. 3. The purpose of the Second Bank of the United States. 4. Jackson's war upon the Bank and its result.

§ 1. "While in older societies the problems are chiefly those of the distribution of wealth, in a new country the problems are those of production." There is a necessary mal-adjustment of the factors of production, and therefore a primitive organization of industry. The land is enormously out of proportion to the capital and labor available for its most effective use. It is so abundant that it has no value, and is free for the taking, except that the Government exacts a small price in partial return for surveying, registry, and other expenses of administration.[1] It is, however, the basis of all production, and a value comes to it as it is brought into cultivation, and this value grows with the increase of population, irrespective of the labor and capital ex-

[1] By September 30, 1832, the receipts of the land office had reached $38,000,000. The cost of the land to the Government at that time had been $49,000,000.—W. G. SUMNER, *Life of Jackson*, p. 230.

pended on the land. The taking of free land merely gave to its holder an opportunity to make a farm. Whether the farm, when made, would have a value in excess of the labor and capital put into its improvement, depended partly on its fertility but chiefly upon the movement of population, as affecting the market for its produce. The value placed upon wild land in a new country is, therefore, from the nature of the case prospective or speculative.

Corresponding to the speculative element which of necessity inheres in property in a new country, is the adventurous character of the people, who are ready to invest their labor and capital in such property. Any industrial community may be divided into two classes, as was shown in a former chapter. One class are relatively wealthy, and have capital to lend. A conservative temperament, in accord with their economic interest, impels these to considerations of security rather than to considerations of profit. It is the tendency of this class to live in older settlements, where institutions are established and known, and where, though profits be small, the risk in investment is less. The other class, relatively poor, have more to gain and less to lose by changing conditions. They are venturesome, speculative, ready to undertake the new and untried avenues of business and assume the immediate risks of a doubtful enterprise. It was this speculative class who settled the West at every stage of our development.[1] Taking up land without cost

[1] "The chance of great prizes operates, with a greater degree of strength than arithmetic will warrant, in attracting competitors; and

in the first instance, holding it until it gained a value through their labor in improvement, and through the increased demand for products, they borrowed capital upon this credit, with which to buy more land. So long as the process went on normally, the greater the sum they were able to borrow, the greater were the profits to be gained.

In the period we are now considering, several circumstances especially favored the normal growth of western land values. Europe had returned to a state of peace after the disastrous wars of Napoleon. The industry and commerce of the Old World had sprung into new life. The demand for materials of manufacture gave an outlet for American products, and especially for cotton. The price of this staple was high. The cotton-gin, slavery and fertile soil made its production easy, while steamboats on the many navigable rivers of the South gave cheap transportation to tidewater. Farther north, where cotton culture failed, the conditions for growing corn were better. The corn was easily transported in the form of pork and whiskey, and for these there was a ready local demand, usually at good prices.

Corn and cotton, then, became the great staples of the central West, and their production was pushed

I doubt not that the average gains in a trade in which large fortunes may be made are lower than in those in which gains are slow, though comparatively sure. . . . In such points as this much depends on the character of nations, according as they partake more or less of the adventurous . . . or gambling spirit. This spirit is much stronger in the United States than in Great Britain, and in Great Britain than in any country on the Continent."—J. S. MILL, *Principles of Political Economy*, vol. i., p. 507.

to the uttermost limit fixed by the capital available for the industry. Practical methods for procuring capital became, therefore, of the greatest importance, and any financial machinery by which capital could be increased, or could be made more effective, was destined to meet with great popularity. The capital required was in the form of buildings, implements, negroes, live stock, bridges, canals, and the like. It is the province of banks when properly managed to facilitate the distribution of these goods, when accumulated where they are less needed, to persons and places where they are more needed.[1]

The members of every business community, alternately buyers and sellers, are continually wishing to pass from goods which they have to goods and services which they want. The goods which the prospective buyers possess constitute a purchasing power with which to obtain the goods or services which they want. In a primitive state of society this is accomplished by direct exchange; under modern conditions, however, it is accomplished indirectly through the intervention of money or credit. It is in this temporary transfer of value from salable goods to convenient forms of credit, and from forms of credit on to goods wanted, that the service of the bank appears. The bank's function is to stand between buyers and sellers. The bank directly serves the buyer by giving a convenient means of payment—its own demand obligation capable of general circulation—in exchange for a note of hand, a

[1] J. L. LAUGHLIN, *Principles of Money*, pp. 78–92 and 115–124.

time obligation secured by salable property. The bank in turn serves the sellers by guaranteeing to them the marketability and value of the goods on which the credit is based, and which constitute the real purchasing power of the prospective buyer. The bank thus renders itself liable to the seller for the payment of the note or check on demand in the standard money. In case of bad judgment on the part of the banker, or fraud on the part of the borrower, the bank bears the loss to the full extent of its resources and the community is protected to that extent. A legitimate bank currency, therefore, is a labor-saving machine in the form of a system of tickets, or titles to cash.

In this service it is immaterial, from the standpoint of the bank, whether the system adopted is one of deposits and checks or one of notes. To the intelligent and conservative banker the note is substantially a check payable to bearer. To the community, however, there is this important difference: the note is not dependent on the character of any individual depositor, as is a check; it therefore obtains a circulation as wide as the reputation of the bank which issues it. In a new country, where specie is scarce and the exchanges are relatively few, and no central place of redemption is provided, the bank-note is treated as cash, often going far from its place of issue and remaining a long time in circulation.

During all this time that the bank's obligation remains unsettled, its corresponding resources may be held in the form of interest-bearing securities, or

commercial paper, instead of in the form of a specie reserve. In other words, the longer the demand liabilities will remain outstanding, the smaller will be the proportion of specie, hence of capital invested, necessary to sustain the business. The profit of the bank, therefore, increases directly with the volume of discounts, for which demand liabilities are created, and with the length of time these demand liabilities will remain unredeemed.

A coincidence between expanded note issues and high prices has often been noticed, and many have attributed a high level of prices to the great volume of notes in circulation. As a matter of fact there is no direct relation between the volume of notes and the prevailing prices, since a note is no more an article of wealth than a theatre ticket is a seat in the house. The real cause of high prices may have been the antecedent action of the bank. By discounting a promissory note imperfectly secured, the bank certified to the community a degree of credit in the buyer which he did not in fact possess. Provided with this new and fictitious purchasing power, the buyer entered the market and stimulated the demand for goods. The excess of demand corresponded with the degree in which his nominal credit exceeded the true value of the property he possessed and which was available for the discharge of his obligation to the bank. The effect on prices of the bank's loan is just the same, where a deposit account is opened upon which the borrower may draw his checks, as where notes are given the borrower to represent his credit. Where obstacles are placed to

the redemption of notes—or the collection of drafts, —the rise of prices may go on without assignable limit by the further extension of loans. The degree of inflation is very hard to estimate, since the rise in nominal values is interpreted as increased security in the hypothecated property against which loans may be still further extended.

This rise in prices increases the profit of dealers, who, not understanding perfectly what is taking place, endeavor to extend their business to reap further benefit from the rising prices. This constitutes a call for further credit and induces the banks to further extend their loans and resulting liabilities. When the purchasing power of all the notes depreciates alike, their real character is obscured by being inseparable from other forces which might unite with it in causing the higher prices of goods.[1]

The only thing that certainly reveals the character of bank-notes, and at the same time guarantees their character, is the process of exchange against specie or against other notes or forms of credit which are known to be exchangeable for specie. The exchange against specie must be frequent and real. It is not sufficient that notes be constructively redeemable in gold or silver.[2]

[1] J. L. LAUGHLIN, *ibid.*, pp. 104–112, on abnormal credit, etc.

[2] In 1813 the New England Bank was chartered in Boston as a bank of redemption, for the purpose of securing the convertibility of the notes of other banks.—SUMNER, *History of American Currency*, p. 62.

The Suffolk Bank is a more interesting subject of study since it undertook to keep the notes of the New England country banks at par in the same manner, but the project was carried out independ-

Such is the process by which an inflation of bank-notes encourages over-trading and fictitious values arise. It may take place easily, and will be detected with difficulty where the banks are wholly independent, and where no methods of inspection, or requirements of publicity, or machinery for redemption are found. Finally, for some adventitious cause, perhaps, the holders of notes or a considerable number of them seek to obtain the specie to which the notes are supposed to convey a title. The banks are unable to pay except as they collect from their customers. Pledged property is thrown upon a sensitive market, credit breaks down, and a long and distressing period of liquidation is apt to ensue. This is generally disastrous first to the bankers who assumed the responsibility to the public for the character of the credit upon which the goods were sold, then to the borrowers who being forced to sell to meet their time obligations find themselves at the mercy of a falling market.

The desire to borrow was so strong during the settlement of the West that the note holder would contribute to the bank's ability to lend by refraining from demanding specie when any other course was possible. For this protection the bankers cheerfully reciprocated by extending loans.

The controlling condition in the Mississippi valley, objectively speaking, was this need of capital.

ently of legislation. The Suffolk plan of enforcing redemption dates from 1824.—*The Journal of Banking*, pp. 34 and 337.

Redemption merely secures the parity of notes with specie; it does not guarantee trade against abnormal credit and a consequent high level of prices.

The controlling condition, subjectively, was the speculative disposition of the people, which seemed to go beyond all bounds in their effort to secure profits from a trade which appeared so lucrative.[1]

The moral effect of the collapse of credit is always bad. Public opinion has little or no censure for speculation as long as it is successful. The incurring of debt and taking of profit on a rising market are generally applauded, since no one is able to tell how much of the growing trade is the result of abnormal credit and how much is the result of healthy business expansion. During all this upward movement debts are paid with less capital and labor than were represented by the thing borrowed, and for which the debt was created. There is no censure for this. However, when the crash comes the situation assumes a different aspect. The debts made in paper must now be paid in metal. The standard has appreciated and the fact of such a change is clear. The man who formerly loaned large dollars and was paid back in small ones now demands payment of large ones for smaller ones loaned. This claim meets with popular opposition chiefly because

[1] The effect of inflation on values is shown by the following estimate of the values of certain lands in Pennsylvania on three different dates.

1809.... $39 per acre—approximately normal conditions.
1815.... $150 " —bank expansion, great prosperity.
1819.... $35 " —after the panic of that year.

Matthew Carey called the year 1815 the "Golden Age" of Pennsylvania. Such prosperity had never been known in that State.

For a fuller description of this time and the depression that followed, see GOUGE, *History of Banks and Currency*, p. 35, and NILES'S *Weekly Register*, Dec. 24, 1821.

the preceding operation for which this would make restitution was not understood and is not now admitted.[1] The debtors are apt to maintain that the return of the specific capital borrowed secures justice, and with this view adapt the law to suit their case.

Different States of the West at different times passed through these periods of depression, and modified their laws or their courts, to the disadvantage of public morals and of the country's credit.[2]

§ 2. The refusal of Congress to grant a new charter to the first Bank of the United States in 1811, on the ground of its unconstitutionality, opened the way for the establishment of many unregulated and independent banks. The war from 1812 to 1815 went even further in providing the conditions favorable to such a movement. The inadequate financial

[1] It must be conceded that in a time of depression values not only come back to the normal but fall below it,—as in the case of the Pennsylvania lands.

[2] "Our difficulties in commerce continue without abatement. Men in business are like patients in the last stage of consumption, hoping for a favorable change but growing worse every day. You have some regular and profitable trade [in England], we have none. It is all scamper and haphazard. A long continuance of distresses in the commercial world has had a bad effect on the morality of the country. The vast number of failures takes away the odium. Men fail in parties for convenience; and the barriers of honesty are broken down by a perpetual legislation suited to the convenience of insolvent debtors. . . . The farmer is become as poor as a rat, the labor on the farm costs him more than the produce is worth. He cannot pay the storekeeper and the storekeeper cannot pay the merchant; mail robberies and piracies are the order of the day [1820]." —Letter of a United States Bank director, printed in NILES's *Register*. vol. xviii., p. 387.

provision for the war involved the issue of government notes. This policy along with the multiplication of bank issues, good and bad, and with military reverses, brought about the suspension of specie payments in 1814, which took away from the people the only means of testing the character of the currency.[1] There was no method of determining the solvency of a bank. There was little effort on the part of legislatures to restrict the multiplication of these institutions. There was no system of inspection, and if there had been such a system, there was no standard of solvency to which the banks could have been held. All values were in the air, as it were, from the Hudson River to the source of the Ohio, and this condition spread into the Mississippi valley a few years later.[2]

For a while after the suspension of specie payments in New York and Pennsylvania, the West continued to have a general circulation of silver and redeemable bank-notes, but the people apparently felt that a great opportunity for growing rich was

[1] "When the United States Government connived at the suspension of specie payments, sanctioned the issue of inconvertible paper, and by its fiscal manœuvring encouraged the issue of additional amounts of such paper, it was impossible that the mania which had reached Pennsylvania from New England through New York and New Jersey should not extend into Ohio and Kentucky."—GOUGE, *History of Paper Money and Banking*, p. 37.

[2] "The first paper-issuing institution, west of the Alleghany Mountains, was the Lexington Insurance Company (of Kentucky) which was incorporated in 1802 with a capital of $150,000." "The Miami Exporting Company was instituted at Cincinnati in 1803, with a capital of $200,000. Both issued paper money." Banks followed. —GOUGE, *ibid.*, p. 37.

being lost. Kentucky, therefore, took the lead in plunging that State into the depths of inflation in 1817–18, granting charters to forty banks at a single session of the Legislature. The notes of these banks were to be redeemable not in coin but in Bank of Kentucky notes. With the beginning of this movement in Kentucky the specie disappeared, prices rose rapidly, and it would seem that every one who had any basis for credit at all borrowed to the limit.[1]

By June, 1819, the crest of the wealth-bringing wave had passed and the people were caught in the undertow. "The gross amount of debts due to the banks is estimated at ten millions. . . . County meetings have been held. Their purpose is: (1) a suspension of specie payments; (2) more paper money; (3) an extra session of the Legislature to pass laws on this emergency." [2]

In 1818 the Bank of Kentucky with its forty subordinate institutions fell heavily into debt to the Second Bank of the United States, through the two branches of the latter which were located in that State. It imported silver and reduced its circulation, in the face of the popular demand for more money, but by 1819 it was forced to suspend payment and compromise with its creditors.[3]

In order to relieve the debtors who had pledged

[1] The Bank of Kentucky had been founded in 1806, the State owning half of the capital of $1,000,000 (subscribed).—W. G. SUMNER, *History of Banking in the United States*, p. 59.

[2] NILES's *Register*, vol. xvi., p. 261. The Bank of Kentucky had itself redeemed in specie.

[3] The official vote to suspend, acknowledging a condition already existing, was not until May 4, 1820.

their property to pay back "dollars" to this coterie of banks which had loaned them notes, the Legislature passed a law (December 15, 1819) suspending sales under execution. The Bank of the Commonwealth was then established (1820) and empowered to issue notes for $3,000,000. This was an interesting organization. It had no stockholders, no capital. The officers were elected by the Legislature and their salaries were paid by the State. The notes were to be issued and loaned on mortgage and apportioned among the counties.[1] As a part of the general scheme of relief a debtor was to have two years in which to redeem under an execution, unless the creditor would endorse on the note that he would take the notes of the Bank of the Commonwealth if offered in payment. Another act was passed in 1821 which forbade the sale of land under execution, unless it should bring three-fourths the value appraised by a jury of neighbors, a provision which clearly placed a debtor in the hands of his friends.

The spirit of the mob seemed to possess the majority in the Legislature, and the relations of debtor and creditor were adjusted to suit the apparent interest of the controlling class. Perhaps there is no more striking example of revolutionary action

[1] When in 1827–28 the banks of Kentucky had once more come to a specie basis, the Bank of the Commonwealth had liabilities of $800,000 for circulating notes, now redeemable. It held assets in real estate $30,592; loans and securities, $1,500,000. Presuming that it had received enough interest to pay running expenses from the beginning, this large balance of assets over liabilities represented the net sum stolen from the people by means of a virtually forced issue of inconvertible notes.

by the radical element of the West, at this time, though instances of its work in the same direction were numerous.[1]

Governor Adair, in a message to the Legislature of Kentucky in 1821, said that "the paramount law of necessity" had compelled that State to resort to a policy against which strong objections might be brought; but "let it never be forgotten that the measures adopted have completely realized the proposed end; that an agitated and endangered population of half a million souls had been tranquillized and secured, without the infliction of legal justice or the example of violated morality."[2]

In 1819 the more conservative element in control of the New York Legislature appointed a committee to investigate the system of banking in that State with a view of preventing the collapse which they apprehended. The committee reported that

"the present circulation of the State principally consists of the notes of those banks whose nominal capitals are small and composed principally of the notes of the

[1] Relief laws had been frequently passed in Virginia during the Colonial period.

Tennessee passed a stay law in 1819, which was declared unconstitutional by the State court in 1821.

Illinois in January, 1821, suspended executions until November of the same year.

Missouri established the famous State Loan Office in 1821.

Ohio on the contrary enacted stringent laws in 1819 and 1820 to compel banks to meet their obligations. It was not effective. The State treasury held $57,000 of inconvertible notes in 1820.—SUMNER, *ibid.*, p. 119, etc.

[2] GOUGE, *ibid.*, p. 38.

individual stockholders called stock-notes, so that the security of the public consists of the private fortunes of the individual stockholders, and those fortunes in a great measure consist of the stock of the bank for which they have given their notes; so that the bank is enriched by holding their notes, and they are enriched by holding the stock of the bank." [1]

It is difficult to fully comprehend the disregard which the people felt in respect to the character of the banks, or even the disregard which the bankers themselves felt for their demand liabilities, and the readiness with which they extended these obligations beyond any proper provision for their payment. The most conservative of the State banks allowed their reserves to run entirely out, while Nicholas Biddle himself, by far the most efficient of the presidents of the Second Bank of the United States, instructed his branches to avoid paying specie wherever possible, allowed balances to accumulate against the State banks to an alarming extent, and countenanced the dangerous practice of branch drafts.[2]

[1] Report of Committee of New York Legislature, 1818, NILES's *Register*, vol. xiv., p. 39.

"In most instances bank stock is paid in not by means of cash, but merely bank credits in the form of loans from other banks for one instalment, and stock notes for the balance; the actual operation of which is to make the apparent lender the actual borrower." *Report* of Bank Commissioners of Mississippi, Jan. 12, 1838, quoted by GEORGE TUCKER, *Theory of Money and Banks*, p. 411.

See also message of Governor of New York, 1818, quoted in HART'S *American History Told by Contemporaries*, p. 444.

[2] Few bankers if any had a better reputation for conservatism than Stephen Girard, though on at least two occasions his reserve was

It would unduly extend this chapter to give a detailed account of the State banks in the various parts of the West, where their operation was conspicuous. The cause, character, and effects of the bank mania were essentially alike in the different States, exhibiting the same morbid economic theory and practice, in the means which the people adopted to secure the capital for the development of the new country.

The practice of floating note issues upon fictitious capital, as described by the New York Committee, became very general. The device put into operation in Kentucky under the name of the Bank of the Commonwealth was more unique but not an isolated case.[1] So long as redemption in specie was required, capital was necessary to the banking business. There was no danger of too many specie-paying banks, nor of too many redeemable bank-notes, since capital would not be taken from other investments for banking purposes except as greater profit in the latter indicated a greater public need. But since redemption limited the extent to which the banks could increase liabilities, and thus limited

exhausted and he received assistance from Biddle.—R. C. H. CATTERALL, *History of the Second Bank of the United States*, p. 432.

[1] A few months before the Kentucky experiment was tried (July, 1820) the Bank of the State of Tennessee was founded. The State owned the majority of the stock. Officers were elected by the Legislature and the State guaranteed the payment of notes.—W. G. SUMNER, *History of Banking in the United States*, p. 146.

In 1823 Alabama established the Bank of the State, which, like the Bank of the Commonwealth, was purely an organ of the State without private stockholders.—*Ibid.*, p. 164.

the degree to which they could accommodate borrowers with profit to themselves, there grew up a well-defined sentiment among the people which was opposed to demanding specie under any circumstances,—a sentiment which was naturally fostered by the banks themselves. The man who sought accommodation should not be too particular about the mere form in which it was extended. It was apt to be inconvenient for the bank to pay specie, and any supersensitiveness on the part of the note-holder might stand in the way of his securing a loan when he needed it.

Moreover, the utmost secrecy prevailed in all the affairs of the banks.[1] Instead of courting investigation and advertising to the world the fact of their solvency, a speculative banking fraternity connived with an adventurous patronage, from motives of mutual interest, to hide from view every possible detail of the business. With these views of banking once generally adopted, it was no longer necessary to employ capital in the business, so that banking, a business which should be so soundly established and wisely managed as to guarantee the community against fraud and abnormal credit in other enterprises, became itself a most attractive vocation for the non-possessing and adventurous class of people who were settling in the West.

The banks of some communities were not so bad as those of others. In some cases the growth of normal values enabled institutions, at first unsound, to become stable and permanent through judicious

[1] TUCKER, *ibid.*, p. 210.

management[1]; while, on the other hand, heavy losses in times of depression carried down others which were properly founded but badly managed. Sometimes these depressions were only local. At other times greater areas were involved. The crises and subsequent hard times of 1814, 1819,[2] 1825, were very widely extended, while the panic of 1837 marked an epoch in our financial history. In addition to these, others of more or less severity occurred in 1828, 1832, and 1834. These recurrent periods of depression revealed very clearly the attitude of mind which prevailed on the frontier in respect to matters of property, credit, and the like. Reference has already been made to the relief laws of various States, as showing the moral tone of the

[1] The banks of North Carolina had been organized on fictitious capital in the prevailing method. A Committee of the Legislature enquiring into the state of the bank currency in 1828–29 reports: "Up to 1819 the high tide of commercial prosperity enjoyed by the country enabled the banks to keep afloat notwithstanding the artificial character of their capital without resorting to this daring and dishonest expedient [suspension]. They had kept pace in their operations with the increasing resources of the country so as to absorb by way of interest nearly all the profits on the immense business then doing. . . . It appears that the people having already paid to the banks, since they went into operation, a profit of about $4,000,000 on the stock, they still hold the notes of the people for more than $5,000,000, about four times the whole circulating medium of the State."—Quoted by GOUGE, *ibid.*, p. 42.

[2] "Corn is selling at ten and wheat at twenty cents a bushel (specie) in some parts of Kentucky. At this rate how are debts to be paid?" —NILES'S *Register*, Sept. 2, 1820.

Corn sold at Cincinnati at ten cents, wheat at from twelve and a half to twenty-five cents. Whiskey was dull at fifteen cents a gallon. —*United States Gazette*, May 23, June 1, and June 23, 1821. See also GOUGE, *History of Paper Money and Banking*, p. 37.

new democracy. The notions prevailing on banking and currency are best revealed perhaps in the experience of the Second Bank of the United States as compared with that of the Suffolk Bank of Boston.

§ 3. The financial chaos which followed the war and the suspension of 1814 seemed destined to continue indefinitely. Banks had increased in number; payments of all sorts west of New England, including government revenue, were made in inconvertible paper. By 1816 the situation had become intolerable to the more conservative interests. There was no reason to hope that the banks would, of their own accord, resume specie payments, and there was no governmental or commercial influence existing which could force them to resume. It seemed necessary to a majority of Congress to make some provision that would afford a motive for resumption, and it was the experience of New England, where alone specie payments were maintained, that presented a model plan for reforming the currency of the South and West.

As indicated in a former chapter, the city of Boston had long stood forth as a centre of business conservatism. As early as 1796 the banks of Boston agreed to refuse the notes of New England country banks because of the difficulty of determining their real character.[1] Being for this reason depreciated, the country notes circulated to the virtual exclusion of the notes of local banks, since the latter would

[1] L. Carroll Root, Sound Currency Committee's "*Red Book*," p. 276, note.

be selected by Boston merchants in making payments of any sort to the home banks, while the former would be kept in circulation in Boston by the trade of these merchants with the outlying towns.

This inability to extend their liabilities—and thus their profitable discounts—brought the banks of Boston into sharp rivalry with those of the country. The sentiment of the rural population, as well as its strength in legislation, is shown by the incorporation in 1804 of the Boston Exchange Office, created for the express purpose of sustaining the circulation of the country banks whether good or bad.[1] It was provided among other things that

"the said Corporation shall . . . keep in Boston a fund of $150,000 in current bank bills of this commonwealth.[2] . . . The said corporation shall neither directly nor indirectly run upon, or make a demand for specie on any of the incorporated banks of this commonwealth . . . which may cause distress; nor knowingly furnish any person or persons with bills for that purpose; and in order that an impartial currency may be given to the bills of this commonwealth said bills shall at all times be paid out promiscuously as they are received; and the said corporation is hereby restricted

[1] A discount on the notes was by no means a sign of a bank's insolvency. The physical difficulties of presentation for specie were so great as often to render practically inconvertible an issue of notes for which an adequate reserve was kept.—L. CARROLL ROOT, *ibid.*, p. 277.

[2] Act of June 23, 1804. "Current bank bills" here means bills of banks outside of Boston. Boston bills were not considered "current."—*Ibid.*, p. 277.

from asking or receiving a premium for exchanging the bills of any bank aforesaid for those of any other bank of this commonwealth, or for specie, or to purchase the bills of any bank of the commonwealth at a discount."

The Exchange Office could issue no notes of its own, but subject to these restrictions it exercised the functions of a bank, making loans and receiving deposits.

The scheme was not successful, as the country banks continued to suffer from "runs" instigated by rival banks, note-brokers, or merchants, and their notes remained at a discount. The failure of the Boston Exchange Office illustrates well the impossibility of creating value by legislative enactment. By 1808 nothing is heard of the Office, and the merchants formed an association and established an agency, for the opposite purpose of enforcing the redemption of country notes in the most economical manner. This move precipitated the failure of several banks, and a crisis followed in 1809 exposing the prevalence of bad methods.

The facilities of the merchants were either not adapted, or not adequate, to the task, for, as the financial condition of the country farther west grew worse, even the notes of New York banks, as well as those of the most remote parts of New England, circulated in Boston at a greater or less discount. This discount gave an opportunity for profit to dealers in this so-called "foreign exchange" if means for redemption could be made sufficiently systematized and extensive. In 1813 the New England

Bank set itself to this work and advertised to make collections at rates considerably below those then current with the note-brokers.

The efforts of this bank proved effective and results were profitable, but the bank drew down upon itself a storm of unpopularity. As a single illustration, in 1814, when three wagon-loads of specie had been collected in New York and was on its way to balance accounts with the New England Bank, the shipment was seized by the collector of the port of New York "on the pretext that it was the intention of the New England Bank to send the money to Canada; the real reason for the seizure was the hostility of the New York banks to the redemption programme of the New England Bank." [1]

In 1818 the "Suffolk Bank" engaged in the same line of business and in competition with the New England Bank. It was the great contribution of the Suffolk Bank towards an ideal system of redemption, to make collections at par for local bankers who would carry a considerable credit upon its books. Moreover, a country bank could prevent a "run" upon its own specie only by keeping a balance to its credit on the books of the Suffolk Bank, and thus the Suffolk Bank became a self-constituted reserve agent.

The system as finally perfected rested upon an agreement between the Suffolk Bank and six others of Boston.[2] The animosity of the country banks was redoubled at this "Holy Alliance," but the "six-tailed Bashaw," as the Suffolk Bank was called,

[1] L. Carroll Root, *ibid.*, p. 277.

[2] Formed in 1824.

had discovered the machinery by which a system of bank-notes can be kept at par in a manner both automatic and economical.

The first attempts at a central redemption agency did not fully succeed even in Boston, because the efforts of the conservative element were overpowered by the counter-interests of a radical majority. So long as there was a large New England frontier with a preponderance of the characteristic adventurous element, this frontier revelled in inconvertible paper, and there was no power either commercial or political which could prevent it. As soon as the rural districts became more fully settled and property began to accumulate, which was not all pledged for debt, a different interest prevailed; the interest of persons who had debts to collect increased relative to the interest of those who had debts to discharge. These men as creditors looked upon affairs from a different point of view; while formerly they looked upon the means of collection as oppression, they now stamped schemes for inflation as evasion and repudiation.[1]

The Second Bank of the United States was insti-

[1] The Legislature of Maine in defence of the people against the Suffolk Bank enacted a law permitting a bank to delay payment for a convenient period after a demand for specie. Even as late as 1837 the Bank Commission referred to the "Suffolk System" as a hardship. *Report*, "Red Book," p. 279. But in their report of 1857 they say: "The Suffolk System though not recognized by our banking law has proved to be the great safeguard to the public. Whatever objections may exist to this system in theory its practical operation is to keep the circulation of our banks within the bounds of safety."—*Report*, 1857. Quoted by L. C. ROOT, *ibid.*, p. 253.

tuted to do for the South and West the service which the New England Bank and the more successful Suffolk Bank were doing for the East. The charter of 1816 required it to conduct its business upon a specie basis. As the cardinal economic purpose of the new bank was to secure the establishment and maintenance of a specie standard of payments, its political justification was to be found in the service it should render the Government as a fiscal agent. Before the close of 1817 it had established nineteen branches and agencies. The number was later increased to twenty-nine, of which sixteen were west of the mountains or south of the Potomac. It might be expected that the people of the West would welcome this new dispenser of capital, but such was not the case. The result of establishing a branch in any community was not to increase the circulation of notes, but to strictly limit the volume of the notes of local banks to such an amount as could be fully sustained by the specie reserve of the issuing banks under a *régime* of redemption. The notes of the Bank of the United States were all alike in character,[1] all redeemable in coin, and much sought after for making remittances. The notes of the State banks, being far more abundant, were paid into the branches in the course of business, rendering the branches to a large extent creditors of the local banks. The local banks were required to settle these balances, usually once a week. In every such settlement between a branch

[1] Branch drafts which often did service as notes formed an exception to this rule of uniformity.

and a local bank, the bank, if debtor, must balance the account in specie. In every community, therefore, where a branch was established there was provided a ready and automatic test of the solvency of all the banks whose notes circulated in that community. These local banks were compelled to keep an adequate reserve, which meant that they were compelled to contract their business until it came within the control of their capital actually invested. Thus the Bank of the United States was required by the conditions of its charter to do a service similar to that which the New England Bank undertook voluntarily.[1]

In this lay the secret of that unpopularity which the bank was compelled to face throughout its career. Beginning operations as it did in a *régime* of almost universal suspension and greatly inflated values, the opposition developed immediately. The return to specie payments necessitated a sharp contraction of issues and curtailment of loans on the part of the State banks.[2] A fall in nominal values resulted from this readjustment of the standard. In the panic of 1818 intense popular feeling was aroused

[1] A very full account of the institution is given by R. C. H. CATTERALL in his *History of the Second Bank of the United States.* University of Chicago Press, 1903.

[2] Although resumption was at first only partial. In order to placate the opposition the bank at first extended credit (and note issues) to what was probably an unjustifiable extent, maintaining its own reserve by importing specie against the course of foreign exchange and at a great expense. This brought upon it the well-grounded criticism of the conservative element and led to the charge that specie payments were not resumed in fact.

against the bank. A committee of Congress was appointed to investigate, and in a voluminous report censured the bank for "mismanagement, speculation, and violation of charter."[1] There is no doubt that the management was bad in the beginning, but this had nothing to do with the financial situation; the opposition really came from the pressure which the institution was bound to exert upon the local banks, a pressure which, with the notions then prevailing, seemed to show a steady and relentless purpose to drive the small banks out of existence and their patrons into bankruptcy. In South Carolina "there was intense excitement and the exasperated local bankers . . . complained that the 'monster' was iniquitously draining the South of its specie. The same conditions existed in North Carolina, where balances against the State banks were also large." The bankers of this State in turn "repeated the angry charge that the bank was attempting the ruin of the people by deliberately and wickedly trying to draw away the specie of the State. . . . The hatred and enmity of the States and State banks towards the Bank of the United States mounted higher and higher." In 1817 Maryland laid a tax of $15,000 upon the office at Baltimore; Tennessee followed the same year with a tax of $50,000, and Georgia levied one of 30¼ cents "on every hundred dollars of [national] bank stock operated upon or employed within" the State. Indignation in Illinois expressed itself in the first

[1] CLARK and HALL, *History of the Bank of the United States*, p. 714.

constitution of 1818 prohibiting any but State banks within the State.[1] The same year "North Carolina laid an annual tax of $5000 upon the branch at Fayetteville"; Kentucky followed with a tax of $60,000 on each of the two branches in that State, while Ohio was close behind with a tax of $50,000 on each branch there. Pennsylvania, the home of the parent bank, proposed a constitutional amendment which would "confine national banks to the District of Columbia,"[2] while the subject was debated in the Legislatures of Virginia, South Carolina, and New York. Had it not been for the favorable decisions of the Supreme Court, the institution would have been certainly and quickly taxed to death. The people memorialized Congress, poured forth vituperation upon the bank, abused the Federal Courts, and called into use all the invidious epithets that had been invented for the redemption system in New England.

No doubt the bank pursued its course with more vigor than tact in the face of this active opposition, but it certainly accomplished its great economic purpose.

"By 1828," says Gouge,[3] "there was no local bank left in operation in Kentucky, none in Indiana, none in Illinois, none in Missouri, and but one in Tennessee, one in Mississippi, and one in Alabama. Branches of the bank were doing an extensive business in these States

[1] Indiana in her first Constitution (1816) prohibited the establishment of any bank chartered outside the State.

[2] R. C. H. CATTERALL, *The Second Bank*, etc., pp. 63, 64.

[3] *History of Paper Money and Banking*, p. 39.

and the condition of the currency was improved to say the least."

The report of the Committee of Ways and Means substantiates this opinion.[1]

During the necessary depression, many mortgages were foreclosed and the bank came into possession of "a large part of Cincinnati—hotels, coffee-houses, warehouses, stores, foundries, residences," and the like—and "over 50,000 acres of good farm lands in Ohio and Kentucky. Its possession of this vast property maddened the former owners, now impoverished by a recklessness which they would not acknowledge, believing instead that the bank was

[1] *Report* of April 13, 1830: "The Committee are correct to the very letter in stating that the bank has furnished, both to the government and to the people, a currency of absolutely uniform value in all places for all purposes of paying the public contributions and disbursing the public revenue. . . . It may be confidently asserted that no country in the world has a circulating medium of greater uniformity than the United States."—CLARK and HALL, *ibid.*, p. 747.

"But the salutary agency of the Bank of the United States in furnishing a sound and uniform currency is not confined . . . to its own bills. One of the most important purposes which the bank was designed to accomplish, and which it is confidently believed no other human agency could have effected under our federative system of government, was the enforcement of specie payments on the part of numerous local banks deriving their charters from the several States, and whose paper, irredeemable in specie and illimitable in quantity, constituted the almost entire currency of the country. Amidst a combination of the greatest difficulties, the bank has almost completely succeeded in the performance of this arduous, delicate, and painful duty. With exceptions too inconsiderable to merit notice, all the State banks in the Union have resumed specie payments. Their bills . . . are of equal value with gold."—*Ibid.*, p. 749.

responsible as if it had taken possession by violence." They forgot that they had invited the calamity, that the bank had merely yielded to their importunate demand for funds, which were embarked in riotous speculation and lost.

"One can almost hear the reverberations of Old Bullion Benton's voice startling the drowsy Senate as he thunders: 'All the flourishing cities of the West are mortgaged to this money power. They may be devoured by it at any moment. They are in the jaws of the Monster! A lump of butter in the mouth of a dog! One gulp, one swallow, and all is gone.'" [1]

§ 4. Andrew Jackson entered the Presidency as the embodiment of the Western spirit. Shrewd, strong-willed, self-complacent, he seemed utterly unbound by conventionality or by a reverence for any human institution which might in the least degree thwart his purpose. To him the Will of the People was the law—the right,—Constitution, courts, or precedents to the contrary notwithstanding. For one in his exalted station, his opportunities had been limited; therefore, the "will of the people," as he conceived it, was in a very large sense the will of the West. Elevated to the Presidency by his military record, he was confronted with new issues, problems for whose solution his experience had made a poor preparation. To hold his coigne of vantage, he must now win approbation by playing a somewhat different rôle from that of an Indian killer.

It is not known that Jackson possessed any well-

[1] CATTERALL, *ibid.*, p. 67.

defined notions on matters of finance. He is reported to have been, like Benton, a "Hard-money" man, and it is certain that he opposed some of the notorious inflation and "Relief" projects of his own State. Whatever his theories may have been, he knew, as well as any man could know, the feeling of the West in regard to the bank, and to know what the people wanted was enough. Knowing the will of the West, the President not only closed his eyes to patent facts with the purpose of carrying out this will to the bitter end, but he proceeded by the method of psychological suggestion, and with wonderful success, to weld this sentiment into a party, bound to himself in such a manner as to make his subsequent calling and election sure.

When Jackson went into office in 1829, the charter of the Bank had yet seven years to run and its renewal was in no sense a political issue, nor had it been an issue with the parties as they then stood. Under these circumstances the following paragraph from the first annual message must be considered a remarkable utterance:

"The charter of the Bank of the United States expires in 1836, and its stockholders will most probably apply for a renewal of their privileges. In order to avoid the evil resulting from precipitancy in a measure involving such important principles and such deep pecuniary interests, I feel that I cannot in justice to the parties interested too soon present it to the deliberate consideration of the legislature and the people. Both the constitutionality and the expediency of the law creating this bank are well questioned by a large portion of our fellow citizens,

and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency."

In another paragraph he suggests that if such an institution be deemed essential at all Congress might be able to devise "a National one founded upon the credit of the government and its revenues"—a plan with which the States were then experimenting.

In this short reference the President crossed the Rubicon. The suggestion is planted. The Bank is not on trial but stands convicted of economic inefficiency, while a serious doubt is thrown upon its constitutionality and fiscal utility.

This pronouncement was made in December, 1829. On the assembling of Congress one year later, the President closed a long annual message by another reference to the Bank. In the message of 1831, he merely called attention to his two former utterances and commended the subject "to the investigation of an enlightened people and their representatives."

The officers of the Bank at last applied for a renewal of the charter, with some changes, and the friends of the Bank in Congress played into the hands of the President by passing a bill for that purpose in the summer of 1832, when the campaign for his re-election was already on.

The veto message which followed is remarkable for the writer's disregard, or want of knowledge, of the real needs and dangers of the country, as well as for its great strength as a campaign document. The message begins by the information that "the

bill was presented to me on the 4th of July instant. Having considered it with that solemn regard for the principles of the Constitution which the day was calculated to inspire, and come to the conclusion that it ought not to become a law, I herewith return it . . . with my objections." Summing his objections to the then existing Bank as "unauthorized by the Constitution,[1] subversive of the rights of the States, and dangerous to the liberties of the people," he reminds Congress that he had already expressed his opinion as to what the institution ought to be, and regrets that in the act before him he could see "none of those modifications of the Bank charter which are necessary to make it compatible with justice, with sound policy, or with the Constitution." The act he finds creates a monopoly, confers gratuitously valuable privileges, not only on a few citizens — "chiefly of the richest class,"—but even on foreigners.

After showing why the opinion of the Supreme Court should have no weight in respect to his course, he closes his appeal to the people (nominally his reasons for the veto) with the observation that

"many of our rich men have not been content with equal protection and equal benefits, but have besought us to make them richer by Act of Congress. By attempting to gratify their desires, we have . . . arrayed section against section, interest against interest, and man

[1] The Supreme Court's decision in McCullogh *vs.* Maryland, upholding the constitutionality of the Bank, was handed down March 7, 1819.

against man in a fearful commotion which threatens to shake the foundations of our Union."

The President then very appropriately says: "I have done my duty to my country. If sustained by my fellow citizens I shall be grateful and happy."

In examining the course of the President in respect to the Bank, we can only conclude that he was inexcusably ignorant of the relation of the Bank to monetary conditions. Conceding that he believed his course to be right, he had foolishly closed his eyes to the facts so abundantly shown by the experience of the East, by reports of Congressional investigations, by the arguments of the soundest men in commercial or political circles. It is not often that a President has had an equal opportunity, backed by a majority in Congress and by the Federal Courts, to raise the country from a low plane of public morals and of economic distress and place it upon a sound financial footing—an opportunity to emphasize the obligation of contracts, the inviolability of property rights, the real sanctity of the Constitution, of the law, and of the courts. Jackson did none of these things. On the contrary he arrogated to himself all the authority and wisdom of the National Government, and like a physician who would give a besotted patient unlimited draughts of rum, he not only destroyed the most effective barrier to speculation by overthrowing the Bank, but by distributing the funds of the Treasury among the State banks he did more than any other man could do to hasten the ruin of a misguided

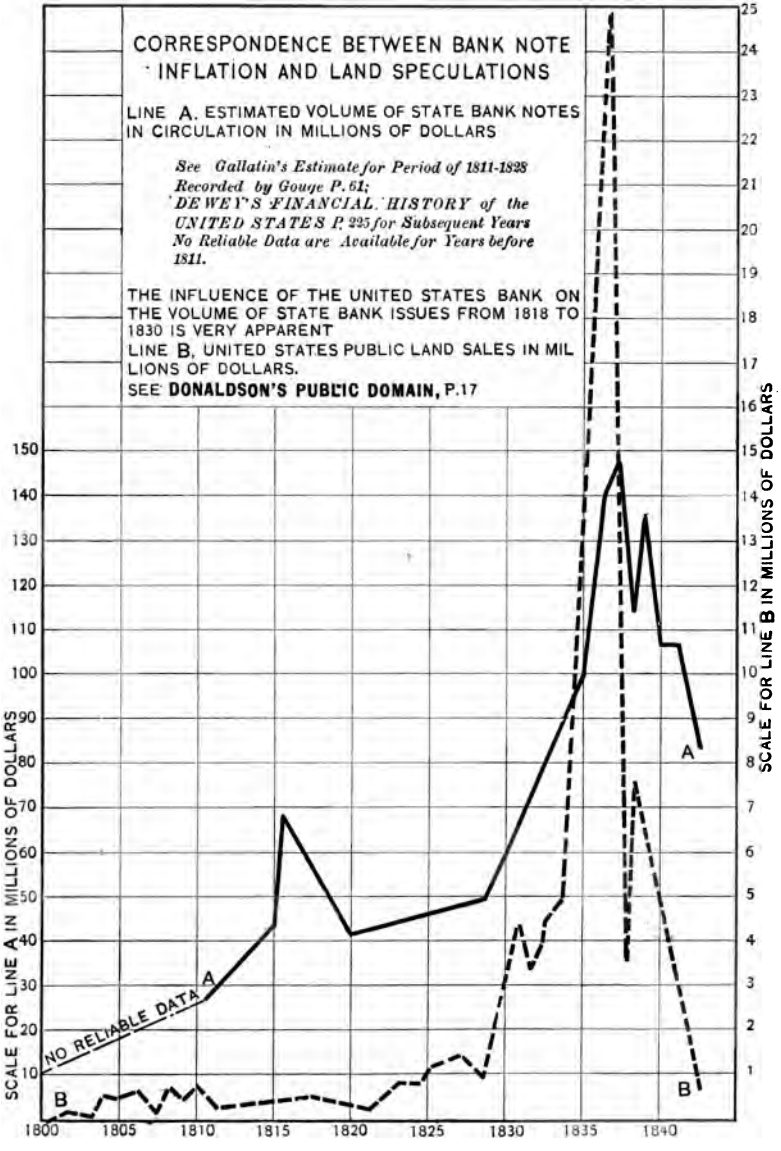

CORRESPONDENCE BETWEEN BANK NOTE INFLATION AND LAND SPECULATIONS
LINE A. ESTIMATED VOLUME OF STATE BANK NOTES IN CIRCULATION IN MILLIONS OF DOLLARS
See Gallatin's Estimate for Period of 1811-1828 Recorded by Gouge P. 61; DEWEY'S FINANCIAL HISTORY of the UNITED STATES P. 225 for Subsequent Years No Reliable Data are Available for Years before 1811.
THE INFLUENCE OF THE UNITED STATES BANK ON THE VOLUME OF STATE BANK ISSUES FROM 1818 TO 1830 IS VERY APPARENT
LINE B, UNITED STATES PUBLIC LAND SALES IN MILLIONS OF DOLLARS.
SEE DONALDSON'S PUBLIC DOMAIN, P.17
SCALE FOR LINE A IN MILLIONS OF DOLLARS
SCALE FOR LINE B IN MILLIONS OF DOLLARS
NO RELIABLE DATA
A
B
1800
1805
1810
1815
1820
1825
1830
1835
1840

CHART I.

people for whose approval he so eloquently appealed. No one more than Jackson himself had "arrayed section against section, interest against interest, and man against man in a fearful commotion," which he seemed to deprecate. It may be worth while to note that this criticism of President Jackson is made from the economist's point of view and justified in the President's charge of economic inefficiency. The question whether social and political dangers lurked in such a concentration of private capital in such close relation to the government falls outside the scope of this study. It should be remembered, however, that this renewal of the charter gave ample opportunity for stringent regulation without sacrificing the essential advantages of the Bank.

It is unnecessary to trace in detail the results of Jackson's course. The Bank began to wind up its affairs in 1834,[1] and ceased to exert its restrictive influence. The speculative spirit, which had been held in check with difficulty by the Bank, burst forth, as it were, with accumulated energy; the immorality which underlay the movement being covered with the cloak of executive sanction. The mania spread like wildfire, ending abruptly in the worst crisis of the period, that of 1837. The accompanying chart indicates graphically the uncontrolled character of the movement as it affected public lands. Since the price of these did not rise to check demand, but remained a constant quantity, land sales may reflect more accurately than any other transactions the extent of the inflated credit.

[1] R. C. H. CATTERALL, *ibid.*, 359.

As the preceding section began with a comparison of the Suffolk Bank with the Bank of the United States in respect to purposes and methods, the present section properly closes with a contrast of the same institutions in respect to results. The New England experiment had achieved a permanent success because an established society, with wealth and permanent institutions to be preserved, had gained the upper hand. The Second Bank of the United States went down because the frontier element in the country, as a whole, overbalanced the East and conservatism. The recurring cycles of speculation, panic, and hard times, with "wildcat" banking, State canals, and repudiated bonds, were destined to continue in the West for almost a generation, until in another great national test of strength over the currency question the forces of conservatism in the Mississippi valley overpowered the forces of radicalism.

CHAPTER IV

SOME ECONOMIC AND SOCIAL EFFECTS OF THE CIVIL WAR

§ 1. Effects of the destruction of wealth. 2. Rapid growth of machine production and its social effects. 3. Effect of the legal-tender notes in shifting the management of business. 4. The new westward movement as typical of the new *régime*.

§ 1. Before entering upon a discussion of the greenback and silver movements for money inflation, it is necessary to call attention to important changes which took place in the industry and commerce of the country, directly or indirectly resulting from the Civil War. These changes which in the long run involved a considerable reorganization or classification of society are attributable in the first instance to the destruction of wealth, the institution of relatively new business methods, and to a general shifting of the control of productive operations into new hands.

The examination of forces cannot be complete. Such important factors as the war tariffs and internal revenue system can only be mentioned if the scope of the study shall be properly confined. It is the purpose to trace these economic and social changes only when they serve most directly to influence

subsequent monetary theory and practice. With this purpose frequent reference will be made to the reports of Mr. David A. Wells who, as Special Commissioner of the Revenue examined most carefully the business conditions of the country in the period immediately after the war.[1]

The enormous taxes imposed in both North and South, the unproductive employment of hundreds of thousands of energetic and intelligent men, the devastation of fertile fields, the destruction of railways, factories, and farm improvements greatly reduced the consumable wealth and available capital of the country.[2] Mr. Wells, writing at the close of the fiscal year 1869, finds the loss directly attributable to the war to have been as follows: Expenses of the Federal Government, in excess of the normal, 4172 millions, of State and local governments, 923 millions; loss to the South (slaves not included), 2700 millions; while other items bring the grand total up to 9015 millions of dollars.[3] In commenting on the sums in this calculation, Mr. Wells shows the loss

[1] The reports will be referred to as Nos. 1, 2, 3, and 4. They appear in collections of public documents as follows:

No. 1 as Senate Doc. No. 1, 2d Sess., 39th Congress.

No. 2 as House Ex. Doc. No. 81, 2d Sess., 40th Congress.

No. 3 as House Ex. Doc. No. 16, 3d Sess., 40th Congress.

No. 4 as House Ex. Doc. No. 27, 2d Sess., 41st Congress.

[2] Expenditure of the Federal Government in 1865 is estimated at 26 per cent. of the gross product of all the industry of the country. When the war began, the national expenditures were but 2 per cent. of this gross product.—H. C. ADAMS, *Science of Finance*, p. 535. The proportion of gross product unproductively consumed in the South must have been greater than in the North all through the war.

[3] *Report*, No. 4, p. 5; see also *Report*, No. 2, p. 19.

to be equal to three times the market value of all the slaves in the country when the war began. If placed on interest at rates then current, the sum would yield an annuity equal to twice the value of the whole slave labor for all time to come.

In so far as the destruction of wealth, in consumable goods and productive capital, concerned society as a whole, it came to an end with the close of the war. But the real situation was obscured by the operation of the debt, which had certain important economic and social effects. The wealth destroyed had been largely advanced from savings which normally would have gone into further production. These advances had now to be reimbursed to those who made them by those persons who should be engaged in subsequent production, while this subsequent production must proceed on a basis of diminished capital.[1]

No account has been taken here of the pensions. In so far as the annual pension bill is a payment to men whose productive efficiency was not affected by military service, it is not an element in the cost of the war, but its effect is similar to that of the debt in giving to pensioners a claim upon future production. In so far as the payment is made however because of death, wounds, or disease, it is intended roughly to compensate for a productive efficiency which is lost. Moreover, in so far as the receipt of a pension leads an able-bodied man to a life of

[1] The Northern debt was at its maximum August 31, 1865. It then amounted to 2757 millions, with an annual interest charge of 138 millions.

inactivity, as must certainly be the case in some instances, there is a further loss to society. On the whole, if the annual pension payment were averaged and capitalized on the expectation of its continuance through the period of two generations, much could be said in justification of adding this enormous item to the actual cost of the war, since the destruction of men would have an effect on later production analogous to that of the destruction of capital. Whatever view may be taken of the relative importance of these items of cost, the emphasis will still remain on the fact that simultaneously with the destruction of products and instruments of production a heavy burden was laid upon future industry.

Turning attention to the immediate effects of the war in respect to industry we find that along with the destruction there was an excessive demand for particular goods. The loss of productive factors, coincident with an increased demand for products, greatly increased the utility of those forms of productive capital which remained available; that is to say, increased the profits in industrial operations and tended to raise the rate of interest offered for loans. Along with this loss of wealth and withdrawal of men from productive operations, came the reorganization of productive forces, with the purpose of increasing their efficiency. In respect to this quickening of manufacture, Mr. Wells, writing in 1869, says: "More spindles have been put in operation, more iron furnaces erected, more iron smelted, more bars rolled, more steel made, more copper and coal mined, more lumber sawed, more houses and

shops constructed, more manufactories of different kinds started than during any equal period in the history of the country," and, continuing, "this increase has been greater than the legitimate increase to be expected from the normal increase of wealth and population."[1]

Notwithstanding the truth of this statement, the growth of great fortunes and the popular belief that the country was in the midst of an era of great material prosperity, there is evidence to show that as late as 1869 the wealth of the people, even in the North, had barely regained, if indeed it had regained, the mark reached in 1860; and this notwithstanding the fact that the population among whom it was distributed had increased approximately twenty per cent.[2] Moreover, this increased population and diminished wealth were supporting a burden of taxation, national, State, and local, many times greater than in 1860.[3] The presumption is therefore that the great increase in industry, and of capital employed, which took place after 1865, did not

[1] *Report*, No. 3, p. 2.

[2] The property valuations, for assessment, of Connecticut, New York, and Ohio are reported to Mr. Wells as follows:

	1861	1868	
Conn....(gold)	$ 224,962,000	(gold) $ 223,900,000	Loss, 4 %
N. Y.....	1,441,769,000	1,265,252,000	" 12 %
Ohio.....	892,850,000	819,098,000	" 8 %

These States are thought to be fairly representative. *Report*, No. 4, p. 25.

[3] The increase of taxation, State and local alone, from 1860 to 1869 was, in Massachusetts, 111 per cent.; in New York, 112 per cent., and in Ohio, 85 per cent.—*Report*, No. 4, p. 25.

indicate an increase of the country's wealth On the contrary, the capital was largely drawn from Europe in exchange for American securities. The expected products were mortgaged for its repayment, and in view of the high taxes and high interest rates this repayment depended upon a ready demand and exceptionally high prices. The result of this dependence on a ready and high-price market, and the extension of business so largely upon a credit basis, it will be the purpose of succeeding sections of this chapter to show.

§ 2. The change from small- to large-scale production and the adoption of methods of business and industrial processes appropriate to the new system were more profound in their significance than the destruction of wealth. This change consisted chiefly in the diversion of capital into new devices for applying productive energy, and at the same time new and extensive forms of industrial organization freely competing with each other.

In a former chapter attention was drawn to the fact that in different stages of industrial development, and under different degrees of industrial organization, the productive capital of a country varies in its forms and, measured by the money investment, it varies in quantity, relative to labor and land. This principle may be shown by a single illustration from agriculture. In a certain stage in the development of wheat production, a given number of hand sickles and flails constituted the whole of the capital which was peculiarly required for the cultivation of wheat on a given area and by a given

number of laborers. The investment in sickles and flails was small and easily extended with any increase in the amount of labor and land available to the farmer. The money investment was insignificant, the product was also small and relatively uniform in amount from year to year.

The first effect of the introduction of a reaping machine into any community was to give a signal advantage to its owner in competition with his neighbors, since he could cultivate a larger area with the same labor he formerly employed and secure a larger product. The investment in a reaper made this farmer, as distinguished from his neighbors, a capitalist.

The increase of the product through the lowered cost of production per unit, caused the price of wheat to fall until the lower value called forth a new demand great enough to absorb the increased supply. The lowered price forced the other farmers to use machines or go out of the wheat business. The appearance of the new form of capital disturbed the industry and changed the relations of producers to each other. Old forms of capital had been rendered worthless and whatever pecuniary investment they represented was a total loss. With this loss came an imperative demand for the new form of capital, which could not be met by mere transmutation of forms already existing, but which could only be supplied by material, labor, and time which involved expense. This necessity for material and wages which would result in the needed machines expressed itself as a need for purchasing power—that is, a need for cash or credit.

Among the farmers who had hitherto produced on practically equal terms, some had credit and enterprise enough to obtain machines, while others had not. In this way the introduction of capital divided the group naturally into employers and wage-earners.

Under the conditions which obtained in agriculture a decade before the war there was little inducement for the improvement of methods. The labor of clearing and preparing farm lands in the eastern Mississippi valley was so great as to oppose a serious obstacle to the extension of agricultural operations. More serious than this was the absence of cheap transportation over great distances. This condition subjected the producer to the demand of local, and often very limited, markets which could be easily overstocked. By the railway development in the period after 1845, especially the formation of through lines in the fifties, both of these obstructions to extensive agriculture were in a fair way to be removed.[1] Now the American farmer offered his wheat in the world's market, instead of in that of his county seat, and this was a market which he was unable to overstock in the early stages of the new system, however much he might alone extend his operations. Moreover it was a market in which he and his immediate neighbors, who were able to employ capital, were apparently no longer competitors; their interests seemed rather to be parallel.

In the second place, with the building of the more western railways into northern Indiana and then

[1] It was in 1845 that the English Corn Laws were repealed, and this greatly favored the exportation of American farm products.

into Illinois came the extension of production into the fertile and treeless prairies, and here the other great obstruction to extensive farming did not appear. Railways and prairie lands placed a premium on the invention of labor-saving machinery such as had never existed before. This development of transportation and agricultural machinery was just beginning to be realized when the war broke out, first to interrupt and then greatly to accelerate the movement, by depleting the supply of productive labor[1] while the demand for products was stimulated. That is, the very first move in the conflict was a call for men, a call which was repeated in both North and South from time to time, until by the surrender at Appomattox a million and a half were under arms, while fully another million had been killed or rendered ineffective by wounds or hardships.[2]

This fact was most significant for the agricultural interest. According to the census of 1860, about half of the people of the United States were living from earnings on the farms. It is probable that

[1] "This state of things [scarcity of labor] has stimulated into greater activity the untiring genius of the American mechanician to invent labor-saving machinery. . . .

"The reaper and mower have become institutions—a necessity,—and no farmer of any standing ignores their use. The machinery for raking and loading hay in the fields, and the unloading in the barn and on the stack, the potato digger, the corn cutter, the bean puller, the cultivator, the corn and bean planter and seed sower, threshing machines, corn shellers, fanning mills, straw and root cutters, hay-rakes, tile ditchers, etc., though not at all of recent introduction, have all been greatly simplified and improved."—Quoted by D. A. WELLS, *Report*, No. 1, p. 23.

[2] T. A. DODGE, *A Bird's-eye View of the Civil War*, p. 320, etc.

more than half of the enlisted men came from this occupation. The result was a shock to that industry, followed by a rise in prices of products and further stimulus to the invention of labor-saving machinery for use on the farms.

While the immediate effect of the withdrawal of men was no doubt greater in agriculture than in any other industry, because of the relative importance of that employment, other interests were not exempt, the tendency was the same in most if not all, and after 1861 the industrial change whose beginnings had already made their appearance was rapidly advanced.[1] The disturbance of industry wrought by the war was not transitory, but permanent. In many cases the skilled labor formerly employed could not be replaced even on the return of peace.[2]

[1] The Bessemer process, which revolutionized the manufacture of steel, and steel rails in particular, was installed in this country in 1864, the open-hearth process in 1868.—JAMES M. SWANK, *Iron in All Ages*, pp. 409, 422.

The progress of the industrial change on its material side is indicated by the records of the Patent Office. There were issued in 1864 a greater number of patents than in any previous year, 4638; in 1865, 6099; 1866, 8874; 1867, 12,301; 1868, 12,544; 1869, 12,957. The significance of this record is emphasized by the fact that before 1854 the average number of patents issued was considerably less than 1000 a year.—*Stat. Abstract of United States*, 1901, p. 439.

[2] "The diversion [of labor] consequent upon the war is [in 1866] from 500,000 to 750,000 men in the North. Those operatives who entered the army have not, as a rule, returned to the old employment." One correspondent, from whose iron mill 127 men had gone to the army, reported only 17 returned. A New England manufacturer, from whom 16 men went to the army, lost all but 2. "Some stay in the South, most go West, others embark in speculative business of some sort. Some lines of business are totally destroyed."—WELLS, *Report*, No. 1, p. 22.

In summarizing these permanent disturbing effects of the war it may be said that there was a withdrawal of both skilled and unskilled men from their accustomed employment, and a sudden and general rise in prices. This amounted to an enormous increase in some cases owing to the immediate demand of the two Governments for military supplies. This demand, along with an unparalleled and at first badly organized system of indirect taxes, led to the rapid establishment of new industries with the downfall or reorganization of old ones. The immediate result of all this was a great loss to a large number of the business men of the country, while abnormal profits were realized by certain individuals. These influences were sufficient in themselves to usher in an era of speculation.

This destruction of capital and supplanting of skill by a shift in the methods of industry which accorded with an extension of the machine system, operate to the immediate disadvantage of particular individuals rather than the disadvantage of society as a whole. The mass of the people may be more cheaply and better provided with consumable goods than under the older system. There is, however, a large number of independent producers who have been operating close to the margin which separates profit from loss. These persons see the value disappear from their productive possessions, whether these possessions be in form of capital or of skill, through the unequal competition of better equipped and better organized industries. These men go to swell the ranks of the wage-earning class. As the

machine system has grown more extensive, the number of these marginal men who pass over from what the socialists would call the bourgeoisie to the proletariat has also grown. In many cases where these persons have been compelled to adopt a lower standard of comfort, or have found themselves unable to extend their scale of expenditure to the limits which now mark the standard of their erstwhile associates, they have formed an element of discontent and a radical class in society, to whom the institution of property becomes a mere abstraction and loses much of its sacredness.

This effect of industrial reorganization, in separating a wage-earning and propertyless class from an employing and accumulating class, should not be confused with another process of separation which was going on at the same time, namely, the marking off of a debtor class, whose possession of wealth was largely nominal, from a creditor class who had to a great extent withdrawn from industry and commerce. The appearance of a creditor class was a natural result of the great public debts, but its formation was quickened and its character determined, to a great degree, as a result of the depreciated government notes, in the following manner.

§ 3. The industrial forces already indicated would no doubt have operated in the same direction no matter what had been the standard of value by which commercial exchanges were made. However, among the commercial and industrial effects of the war were some particularly attributable to the inconvertible paper currency. This currency not

only supplied a medium of exchange to the exclusion of specie, but by virtue of its legal-tender quality became the practical standard of value, while its own value, as recorded in the premium on gold, rose or fell under every influence which could affect, however remotely, the certainty of redemption.

In the first instance, the fall in value of the nominal dollar permitted the discharge of existing debts with a smaller amount of wealth than that for which the debt was contracted. In the second place, the fluctuations in the standard had the effect of increasing prices in general, to an amount exceeding that of the premium on gold, for the reason that every dealer must insure himself against loss by an unexpected fall in the value of his money, or of his goods, through a change in the gold value of paper. That is to say, prices were not only subject to the variations we are accustomed to provide for, arising out of the changes in the demand and supply in the market; they were subject to all these, but also to variations in the value of the nominal dollar which was itself one of the most sensitive things in the market. The dealer in goods under an irredeemable paper *régime* cannot keep his feet financially without exacting an exceptional profit which is in the nature of insurance of capital.[1]

As already suggested, a psychological effect of the fluctuations in the value of money was to work a

[1] The increase in prices is 90 per cent., in the rate of wages 60 per cent., over the average from 1859 to 1862. About half of this is attributable to the gold premium.—WELLS, *Report*, No. 1, p. 11 (1866).

rearrangement of the business men of the country of a different character from that which the industrial revolution itself accomplished. The old and established operators found themselves losers by the scaling down of credits, while the elements of uncertainty in the situation made them favor a policy of retrenchment and conservatism. Many withdrew their wealth from productive employments and invested it in government securities. In this manner a definite creditor class was formed whose interest was quite apart from that of the producers of wealth. The interest of one class demanded low prices while the interest of the other, having debts to discharge, required high prices.

Especially did the movement in currency values turn to the advantage of those who were in debt when the war began, for they were enabled thus to get a foothold in the business community. The result was to place a large proportion of the business of the country into the hands of the more adventurous, speculative, though at the same time vigorous class of society. Men pushed to the front who, having little to lose and much to gain, were full of courage, in many cases reckless, bold to conceive as well as to execute, a class of persons who found in the war itself, and in the tremendous industrial, transportation, and financial undertakings which the war induced, every opportunity for the development of their executive talents. It was the special contribution of the inconvertible currency to the industrial revolution to transfer the conduct of affairs from the hands of the conservative, to

those of the speculative element of society. It was these men who became associated with the rising machine system of production and exchange, and they have to a great extent dominated American business operations since the war. It was men of this class who found an immediate chance to exercise their peculiar qualities of mind in the rapid development of the West.

To summarize the immediate industrial effects of the war with which we are now concerned, it may be said that the demand for capital and goods on the part of the Government stimulated the rates of interest and raised prices of certain goods. The levy of indirect taxes raised the prices of other commodities and caused sharp fluctuations of values in unexpected quarters. The abnormal demand for men raised money wages. These influences combined to give the appearance of prosperity and to afford the element of uncertainty which favors speculation. The compensatory loss, being largely distributed through indirect taxation over the whole population as consumers of goods, was in a great measure concealed. Moreover, through the operation of great government loans, much of this loss was passed on to the future, to be reimbursed from later production when its effect would be cumulative. Irrespective, therefore, of the influence of a depreciated currency, the war would result in a period of apparent prosperity and of speculation, to be followed by one of depression in which the loss and waste that had gone before would first become fully apparent. Upon this necessary condition was added the influence

of a legal-tender, depreciated currency which declined in value as the waste of war increased, further raising the nominal value of all goods and facilitating the discharge of debts contracted on a specie basis, an influence which greatly strengthened the speculative tendency. Men were dissatisfied with the slow methods of accumulation to which they had been accustomed, and abandoned their employments for the opportunities held out by Western land agents or for speculative commercial pursuits. Finally, the extension of machine production and the disbanding of armies afford, for a short time at least, the conditions which produce a discontented proletariat, while the enormous debts of State and nation give a basis for a relatively permanent creditor class, whose property consisted not of productive capital but of government securities, whose ultimate discharge rested upon the producing element in society in the form of interest and taxes, largely concealed in the prices they must pay for goods.

Moreover, this producing element formed a fairly well defined debtor class, in so far as it represented the employers instead of the laborers, and the interest of this class was sharply antagonistic to that of the creditors.

The proletariat and debtor employers have these features in common. While one can make no claim to wealth, the possessions of the others are largely nominal. Neither will tend toward conservatism in its present condition. Both occupy a precarious position in respect to their standard of comfort.

They will suffer together in a time of depression and listen with interest to the radical agitator.

The character of this debtor class and the circumstances which developed it require further examination.

§ 4. An attempt has been made to point out the influences which tended to take the control of business out of the hands of men whose prime interest was the protection of their property and place that control in the hands of those whose prime interest was to obtain property. The methods employed by this speculative class can be shown best by examining the case which of all was most conspicuous, namely, the exploitation of the public lands of the West. The extension of Western settlement was at once a part, and a result, of the speculative activity in which the country was involved.

While many men had made fortunes in the industrial changes during the war, there were no fortunes for the men who remained at the front. Their income and opportunity were limited to the pittance which the Governments paid them in greenbacks and Confederate notes and they must not only begin anew but under a handicap. In 1865 and the years following, hundreds of thousands of men were mustered out of military service. Many went home to find their old employments gone. In some cases their places were filled, in others new methods had come into vogue with which they were unfamiliar. Moreover, a few years of military service had changed the character of many. Old habits had given way to new ones and the monotonous life of their old

situation had been rendered distasteful. The war had had an important educational effect. From rural isolation and used to independent action, they had become a part of an army. They had submitted to discipline, learned the power of united action. They had seen railways built and had helped to build them. They had seen the organization of great campaigns and had taken part in these campagins. Not only this, but they had travelled. Men of the upper Ohio valley had gone with Grant to Vicksburg and Chattanooga and with Sherman to Atlanta and Savannah. Others from the Southwest had gone with Johnston across the mountains and with Lee into Maryland and Pennsylvania. They had observed the resources of other localities, the ways of other people, and were no longer bound by the customs and traditions under which they were born. For these men the now rapidly growing West seemed full of opportunity.

While free land and unemployed labor may have been the fundamental conditions for the westward movement, there was another influence which stimulated this movement and intensified both its economic effect and its speculative character; this influence was the land-grant system of railway extension. The uniform price at which public lands were held was $1.25 an acre. The presence of transportation facilities would increase the value of these lands—or, to speak more exactly, give them a value. The plan which had been adopted was to give to a railway company every other section in a strip, varying in width from twelve to forty miles

according to the character of the country traversed, or from six to twenty sections of land along the route for each mile of road constructed. The price of lands remaining to the Government within such a strip was raised to $2.50 an acre. The public advantage appeared to be in the fact that a market would thus be created for the lands where none existed now. The railway company, on the other hand, was given a basis for credit on which bonds could be sold to defray the cost of construction, both lands and road being mortgaged for that purpose. At first blush it would seem to be a plan in which all would gain and no one lose.

As in the period before 1837, it proved possible to issue unlimited quantities of bank-notes whose discharge rested ultimately on the anticipated value of the new land, by the pledge of which discounts were secured, now an enormous issue of railway securities was effected, based in turn upon the same sort of anticipated value — an anticipation which could only be realized by a movement of population and the industrial development of the West. While in the earlier case success depended on the creation of a market, the object now was the creation of products only, as a world's market was taken for granted and assumed to be available, apparently, to any extent through the rapid and cheap transportation facilities now in process of construction.

Thus the Government, in virtual co-operation with the railway promoters, assumed the rôle of a land speculator operating on a gigantic scale, with the effect of draining productive capital away from its

present employment, where returns were relatively certain, into an enterprise in which immediate returns were impossible and in which ultimate returns, as events proved, were largely problematical. But as has usually been the case, when the Government has gone into a business undertaking for which sound business arguments are wanting, the thing was carried through by an appeal to patriotism—thousands of poor would thus be provided with cheap homes and productive lands, this country would be more than ever a haven of hope to the oppressed of every land, while the great nation would be bound together, unified, its resources developed, its security from foreign attack assured. There were some feeble warnings to the effect that the development of resources to-day was closing the door of opportunity for to-morrow, but they had little effect; cold argument has at other times failed to check Congress when spurred on by an appeal to the "flag and the eagle."

As after 1825 the success of the Erie Canal[1] induced many States to undertake internal improvements—the establishment of transportation facilities—on a large scale, so now the success of the Illinois Central Railway—the first built upon the Federal land-grant system—was cited in conclusive proof of the wisdom of this plan for Western development. The exceptional character of the advantages which both these enterprises enjoyed was not appreciated.

The Federal grants, prior to 1872, placed at the

[1] POOR'S *Manual*, 1881, p. xvi.

disposal of twenty-three railway companies 155,000,000 acres of the public domain[1]—an area exceeding five times that of the State of Pennsylvania. About one third of this was forfeited for non-compliance with the terms of the grants, but the balance passed, soon or late, into the control of the companies. In addition to these grants, and as a further stimulus to investors in the first continental system, the Government loaned its bonds to those companies, on a second mortgage security, to the total amount of $64,623,512.[2] We are not now concerned with the political justification for the first road to California, but rather with the economic effects of the whole movement for subsidized transportation. For this reason we should not overlook the aid given to railways by local organizations of Government. According to the Census of 1870 there were then outstanding $185,000,000 of county and municipal bonds issued for this purpose alone, and there is no record at all of the amount issued, paid, and cancelled before that date.

The circumstances under which Western settlement was effected placed the settler in a peculiarly close relation to the Government. It was Government land that he bought, Government established by subsidy the railway which transported him and his belongings to the new home on the prairies.

[1] DONNELSON'S *Public Domain*, p. 912.

[2] E. R. JOHNSON, *American Railway Transportation*, pp. 314–318. There were political grounds for assisting in the construction of a transcontinental line before it could be justified by private enterprise alone, and provision was made for this exceptional subsidy as early as 1862, amended in 1864.

The Government established a banking system which extended him credit and he extinguished his debt to the bank, if at all, in Government notes. There was thus thrown about the farmer of the West, in a way that could not have been done before the war, a body of facts which formed an object lesson in State socialism, a lesson which he thoroughly learned and quickly applied when the conditions seemed to demand it.

The influences which have been indicated as flowing out of the Civil War, either directly or indirectly, have been more or less effective until the present time. In the period of rural depression which continued for more than twenty years, with occasional transitory relief, the effects of these forces were most clearly shown in the widespread discontent of the agricultural population.[1] It is the purpose of succeeding chapters to examine the two most striking forms in which this discontent revealed itself in movements for money inflation.

[1] In support of the claim that a depression of over twenty years' duration had existed in agricultural pursuits, argument may be found in the following facts:

1. The value of agricultural lands east of the Mississippi was no greater at the end of the period notwithstanding improvements and growth of population and local markets.

2. Average earnings from the farms and from manufacturing pursuits of all kinds were, in 1890, $290 and $893 per year respectively.

3. There has been a steady drift of population to the cities and scarcity of farm labor.

CHAPTER V

THE GREENBACK MOVEMENT AN OUTGROWTH OF NEW ECONOMIC AND SOCIAL CONDITIONS

§ 1. Economic effects of railway development in the West. 2. The proper relation of government to the people in respect to the medium of exchange. 3. The psychological effect of legal-tender notes and the National Bank currency. 4. The origin of the agitation for more greenbacks. 5. Erroneous theories underlying the demand for more money.

§ 1. An effort was made in the preceding chapter to take a preliminary view of social conditions, antecedent to the depression which marked the decade before the resumption of specie payments. We are now in a position to examine more concretely the social forces which led to the greenback agitation in that decade.

In making this examination the most conspicuous fact continues to be the system of large-scale production, relatively new in its methods and forms of organization, a greatly enlarged superstructure resting upon a diminished foundation of wealth, an industrial system evidently developed upon an unwarranted extension of credit. This system of large scale production, so long as the units are independent and without monopoly advantages, lends itself in a peculiar manner to speculative activity. Under

a handicraft system of industry production in any particular line will never greatly exceed demand. The investment of capital is relatively small. The tailor receives an order and makes the coat accordingly. The relation between producer and consumer is very close and there is no incentive for the artisan to accumulate a stock of ready-made goods. With the large investment of fixed capital which characterizes the factory system there goes the necessity for relatively large and steady production in order that labor and plant may not be idle. Contracts for labor and material must often be made far in advance of their need, and where, as is often the case, the product cannot be sold so far in advance, production goes on in anticipation of a demand more or less remote. The presumption often is that if goods conform to the general requirements of the patronage, following certain standards of style and quality, the element of cheapness will attract a buyer. This advantage of low cost, which is the inducement to large-scale production, is lost to a greater or less degree when the productive operations are made to conform rigidly to existing daily demand.[1]

The extension of railways after the war forms a

[1] It cannot be maintained that the speculative element in production continues so prominent as a factory system rises into a "trust" system. Often the very object of combination is to avoid the losses which result from competition when independent producers have overestimated demand. As the element of monopoly appears the element of speculation disappears, and the monopolistic combination realizes the advantages of large-scale production without some of its most serious disadvantages in the nature of risk.

striking example of this system of extensive production in regard both to its method and its effect. In railway building before 1850 roads were located to meet existing demand for transportation. The capital was largely furnished by persons who expected to use the road, and the motive of speculation was relatively unimportant. No one then undertook to build a railway for the purpose of selling securities, as frequently happened after the war. Neither were roads built for the purpose of developing the resources of unoccupied regions and speculating in the lands, a motive which became so common at a later time in developing the prairie region of the West.

From 1865 to 1873, 35,193 miles of road were built, of which 24,000 were in Illinois, Michigan, Mississippi, and the region west of this group of States. Much of this extension was in territory where no economic demand existed. In order to afford a market for these transportation facilities every inducement was offered to extend Western settlement which would stimulate agricultural production.

If a railway may be said to give effective transportation to the products grown within ten miles of its line on either side, then between the war and the panic of 1873 there were brought into effective or potential competition with the older lands of the country over fifty-six millions of acres, much of it rich prairie. As long as the price of products in the world markets would cover the cost of their production, including transportation charges, there would seem to be no assignable limit to the exten-

sion of settlement and the still further extension of railways. The movement seems to have proceeded throughout on the assumption that the world's demand for products would sustain prices.

By 1873 a pretty complete network of roads had been formed from the Mississippi to the Missouri with some extensions beyond, one of which reached the Pacific Ocean, all built by capital drawn from Europe, or the Eastern States, by the offer of exceptional rates of interest. In some cases the promoters had invested nothing themselves beyond the expenses incident to organizing a company. All these roads were mortgaged for their full cost, which under ruling prices was a high cost; and that meant that they were mortgaged for much more than their value on any reasonable expectation of earnings.

In this network of roads were thousands of new farms, nearly all of which were also mortgaged at still higher rates of interest than the railways paid. Both roads and farms were absolutely dependent on a world's market for staple products, since there was no local market worth considering. In many cases the failure of a single crop, a fall in the price of wheat or cattle, a rise in the rates of freight, would throw these farmers into bankrupty, wipe out their titles to the land, and relegate them again to the status of renters or hired laborers. Not only did failure involve this change of status, but in many cases actual hardship and suffering, since the farmer of the Western prairies was less independent than his predecessor in the Ohio Valley had been. The world market demanded the production of staple

products; his farm was adapted to the growing of such crops, and this necessary specialization rendered him less self-sufficient in case the market for his particular crop should be depressed.

By the close of 1872 it had dawned upon investors that the railway extension was being overdone. Lowering prices threatened a check upon agriculture and diminished the prospect of freight receipts. The high cost of construction and operation, at prices and wages then prevailing, combined with unsettled conditions in Europe to check the flow of capital westward. Funds could not be obtained for the fulfilment of contracts, and construction was brought to an abrupt stop.

The panic which primarily affected railway extension resulted in exposing the great degree of inflation which characterized business in general. A period of foreclosure, reorganization, and retrenchment followed, and then came a realization of that competition in agriculture for which the operations of the promoters had made the way.[1] Thousands

[1] The total amount of railway bonds in default

when the year 1873 began was.....	$134,684,600
From Jan. 1st to Sept. 20th, 1873, were added	91,740,500
From Sept. 20th to Dec. 31st, 1873.....	150,233,250
During 1874.....	262,366,701
During 1875.....	140,448,214
On Jan. 1st, 1876.....	4,494,400
Total in default that date.....	$783,967,665

Bankers' Magazine (London), March, 1876.

From the average of 1864–65 to the average of 1874–75 the price of corn fell one third, production more than doubled. The price of wheat fell nearly half while production doubled.—*Statistical Abstract of United States*, 1883, p. 162.

of men were thrown out of employment and their consuming power disappeared. Prices of farm products already declining fell more rapidly. The depression was world-wide. This made recuperation more difficult than would have been the case if foreign consumption had remained normal.[1]

The economic forces, then, whose operations had gone forward in a great measure concealed from view produced a net cumulative effect in the extension of business on inadequate capital, an overproduction of staple products, and a readjustment of the standard of value. This net result revealed itself in falling prices, and the effect of falling prices was most disastrous in that occupation which involved the greatest number of producers, and in that portion of the agricultural population which was most heavily in debt and least self-sufficient, that is, on the prairie frontier.

Under a *régime* of competition men who operate with a large item of fixed charges are placed at a

[1] Causes of the speculation prior to 1873 from an English point of view were:

First. The Franco-German war, followed by the disturbing influence of the indemnity payment (1870–1873).

Second. The railway-building mania in the United States (1868–1873).

Third. The operations of Russia during the same period in internal improvements.

Fourth. The opening of the Suez Canal, creating a stiff demand for new large steam vessels (1869–1873).—*Bankers' Magazine* (London), April, 1876, p. 273.

It might be added as significant for the American farmer that the Suez Canal lowered the delivery price of Indian wheat at Liverpool 16 cents a bushel.

disadvantage during falling prices. They cannot stop operations and remain in control of the property, even though business proceeds at a loss. To continue production, even without profit, is the best a man can do in such a case, while it may be necessary to increase production in order that receipts from declining prices may cover the necessary fixed charges and expense for labor and supplies. One may thus save himself for a short period by adopting a policy which must be ruinous to himself and his competitor alike if long continued. A farmer in this situation must disregard the exhaustion of his soil, the need of barns, fences, and implements; he must suffer a depression of his already low standard of comfort and deny himself and his family every sort of luxurious consumption.

The enormous growth of transportation facilities, the greatly increased area planted to the chief agricultural staples, made the price of a bushel of wheat in Liverpool, or that of an ox in Chicago a steadily diminishing quantity. Of this lowering value the fixed increments of interest and freight constituted a steadily increasing proportion.

The rates of freight established under a *régime* of high prices were no doubt reasonably low. So long as the speculative values were maintained the interests of the farmer, the banker, and the railway did not seriously conflict. Each sought to extend the enterprises of the others and gained a profit in the others' success. But, like the farmer, the railway cannot withdraw from an unprofitable business. A railway under a receivership may operate as effec-

tively and cut rates more ruthlessly than when in the hands of its stockholders. Engaging in sharp competition between the more important towns they lowered rates until they failed to pay the cost of operation, and fixed charges were wholly disregarded. At other points where competition was not effective they maintained the old scale. By this practice the roads built up towns, but helped to ruin the farmers where railway competition was not effective, and brought down upon their heads the wrath of those people whose migration they had induced, whose money had been freely voted for railway extension.

The effects of this depression in agriculture were not confined to the West, though in the West they were most extensive and immediately disastrous. Every section of land west of the Mississippi on which cattle could be produced and the cattle delivered in Chicago more cheaply than those produced on a section in Ohio gave a lower value to the section in Ohio. Every mile of railway extended into the more fertile West, and every improvement which would lower the expense of operating that railway, not only lowered the value of eastern lands, but, in so far as these may be compelled to compete in production with western lands in the same market, the depression must be permanent.

In the five years following the panic of 1873, and to a greater or less degree ever since, the East and central West have paid dearly for the land-grant experiment. From Maine to California the agri-

cultural interests of the country were prostrated. The States made a vain effort to protect the farmers by readjusting their relations to the railways. There was no power in legislative remedies; a rise in the value of the standard of payment was inevitable unless a permanent state of national bankruptcy should be adopted, and even this sort of paternalism would only shift the loss from one class to another. To lower the charges for transportation by State regulation would only lower the delivery price of the farmer's produce for the benefit of foreign consumers. To lower interest rates on agricultural loans would only stimulate production and further depress the value of the product. Many a man who thought he had greatly increased his fortune in 1870 found himself in 1876–77 scarcely better off than in 1861, while in many cases the value of his land was actually lower than in 1861, and from causes quite beyond his control. The farmers of the West had gone down and dragged with them the farmers of the East.[1]

It would certainly be safe to assert that the economic conditions incident to the settlement of the West, by the method that has been indicated, were quite sufficient to cause an extensive depression, not only in agricultural but in manufacturing and transportation properties. The situation, however, was greatly aggravated by the influence of the legal-tender currency and by false theories developed

[1] ROBERT GIFFIN, *Essays in Finance*, p. 120, etc. For the bitterness and hopelessness of the anti-railway agitation, see H. V. POOR, *Manual of Railways*, 1881, pp. i. to lxxv.

during the period of its ascendency as a medium of exchange and standard of value.

In order to set forth the character of this factor attention should first be drawn to the sound principles which ought to have been observed and to the particular manner in which they were violated.

§ 2. An effort has been made to state the economic situation of the American farmer in 1873–78, and incidentally, though less exactly, the situation of all other producers of wealth. It cannot be claimed that the analysis of forces has been complete, but, rather, that those which were typical and most effective have been indicated. The conclusion at this point must be that the forces which operated were purely economic forces, acting continuously and quite irrespective of legislation. The legislative interference directed at railways or banks only served here and there to conceal the economic conditions, to distort the industrial system, temporarily change the direction of economic forces, but in no absolute sense did it counteract them or alter their ultimate and cumulative effect. No amount of legerdemain can change a loss into a profit, though it is possible in one way or another to shift a loss from one person to another. Perhaps no one would now deny that the movement for currency expansion in the 70's was an effort to make just such a shift, plausibly justified by the extent of the business depression.

It was shown in Part I. that economic depression affords the condition for the acceptance of inflationist propaganda. While this is true the propaganda

itself depends not immediately upon economic conditions, but upon prevalent theories of money, or of the relation of debtor and creditor. It remains now to be shown why relief was sought in the particular direction of an inflated currency.

The exchange of forms of wealth,—goods, services, titles to property, or proprietary rights in the form of credit instruments,—which takes place between their owners is as truly an economic process as is the production of wealth itself. Exchange is inextricably bound up with production and consumption and is as completely subject to economic laws as any other economic process. These laws operate wholly independent of the State, and the function of the State normally ceases when fair play is secured for private initiative under a *régime* of competition. That is to say, when property is made secure and contracts are interpreted and enforced,[1] any further action on the part of the State is properly termed interference.

The development of trade and industry, to a certain stage, introduces money as a medium of exchange, a common denominator of value and a standard of deferred payments. It has already been said that a commercial community will devote just so much of their wealth to serve their purpose as money as can be more economically devoted to that

[1] This is no denial of the fact that a large amount of State regulation may be necessary in order that property may be secure and competition free, but such is not inconsistent with a competitive *régime;* much laudable State action is for the prevention of oppression by monopolies.

use than to other capitalistic uses or to consumption. The quantity of wealth thus set aside for money, given the stage of commercial development, will vary roughly but consistently with the requirements of trade. A further development in the system of exchange introduces credit as a means of economizing money, and the visible forms of this credit will be determined by the character of the exchanges and the conditions under which they are made. This development in methods of exchange is quite analogous to that which takes place in methods of production. Just as mechanical devices in industry come into play according to the experience and ingenuity of the producers of wealth, so credit devices, such as bank-notes, bills of exchange, and the like, make their appearance as men in business learn to go from goods they have to goods they want without a cumbrous and expensive transfer of other wealth in the form of money. That is to say, the need develops the means both in kind and in quantity, in exchange as in production. The use of credit instruments does not supplant gold (or any other form of wealth that may be chosen) as a standard of value, but merely economizes its use in exchange. The credit instrument must at any time be convertible into gold in order that its value may exactly accord with the standard in exchange.

In order that gold, or any other form of wealth, may operate perfectly as a standard of value, it must be possible to transfer it freely from use in the arts —production—to use as money—exchange—or back

again from the money form to that of the commodity. Only by such freedom in passage from one relation to the other can it retain its property as a true measure of values in general, its own value dependent upon the natural law of demand and supply, from whatever quarter the demand may arise or the supply be available. It follows also that where production is based on the principle of free competition among individuals the system of exchange must be so based also. There is no place for individualistic production and paternalistic[1] exchange. As a man is free to produce he must be free to exchange, and make contracts; and security of proprietorship in the product may be worthless without the freedom to exchange it with assurance that the contracts under which the transfer was made will be held as binding by the State.

But all this does not mean that the State in its corporate capacity has no business relations with its members beyond protection of life and property. In its fiscal relations with the people the Government is a buyer and consumer of wealth. It may be a

[1] The terms "paternalism" and "paternalistic," whenever they occur in this discussion, are used in their popular sense as applying to those efforts on the part of the Government to make such provision for public welfare and convenience as might be made by private undertaking in a *régime* of free competitive industry. It is conceded that this use of the terms is not historically accurate. The alternative words, "nationalism" and "nationalistic," while conveying the meaning desired with more exactness, are ambiguous from the fact that government interference in industry and commerce may appear in State or municipal as well as in Federal activities.

For an exposition of these and kindred terms the reader is referred to Professor Ely's *Socialism and Social Reforms*, chap. ix.

producer to some extent. It is apt to become a debtor to a large extent; but in all these relations it ought to deport itself as a business man, or corporation, among business men,[1] when it assumes any different rôle than this, by disturbing the normal action of economic forces, it produces undeserved losses for some and unearned gains for others. Such was the independent relation which the Federal Government sustained toward the people when the war began, and such had then been the case for many years.

With these principles in mind,—and they are believed to be those absolutely necessary to the ideal relation of a government to the people, toward whom it will deal, with an even hand, equal justice and opportunity,—we are in a position to see wherein the Federal Government stepped out of its proper sphere, and how such a departure disturbed not only the material interests of the people, but gave them a distorted point of view and endangered the institution of property, as well as the moral sense of the obligation of contracts.

§ 3. When the war began the State entered the market as a borrower and consumer of wealth. Not satisfied with the terms on which it could borrow freely, it exerted its power as a sovereign to force the people to lend, giving, in exchange for goods and labor, obligations which could not be enforced against itself, its circulating notes. The whole body

[1] The question as to how far the State may deviate from this rule in the exercise of its police power or to promote the general welfare is not raised. It is the general principle only that is emphasized.

of the people thus became creditors of a virtually bankrupt borrower, and the consumable wealth which the people had given up was represented by these tokens of debt, which were made exchangeable between the creditors. This action of the Government was neither new nor strange; in similar emergencies it had been taken before. The laws of trade operating on the irredeemable paper depressed its value to the level which the circumstances of the debtor determined.

Had the matter rested there our subsequent financial history would have been more simple. But the issue of circulating notes was not all, nor was it the worst violation of monetary principles chargeable to Congress. Lest some among the people should refuse to accept these representatives of indefinite future utilities, in discharge of obligations to pay utilities already enjoyed, the power of the sovereign was again invoked to make the notes a legal-tender.

This action of the Government, intended to sustain the value of the notes, had no such effect except in appearance. Instead of prices representing a ratio of exchange between gold and goods, with government notes on the side of goods along with other evidences of debt, the legal-tender act was sufficient to shift the adjustment, making price a ratio between notes and goods, with gold among the goods. The old ratio of gold to goods was not directly affected. That is to say, price was a ratio between a promise of wealth and wealth itself, the promise being indefinite in two essential respects, the man-

ner of redemption and the time of redemption. The standard of value was no longer a substance but a promise, and, as events proved, a promise open to different interpretations.

It is dangerous to assert that a definite thing would have happened had a certain variation in circumstances occurred. However, it is quite possible that without the legal-tender quality attached to the notes gold would have remained the standard of value in popular use, and the notes would have been quoted at a discount in terms of gold. When suspension took place gold was the standard of value in everybody's mind. Bank-notes were in circulation in nearly all parts of the country, and these were not all of equal value, largely because of inconvenience involved in redemption. These notes, in so far as they were depreciated, were quoted at a discount in terms of good money, that is to say in terms of gold. It would seem quite the natural thing for the new government notes to have taken their place in this mass of depreciated circulation at a discount and continue to be so quoted. As a matter of fact the "old demand notes," which were in circulation when suspension began, and were not then a legal-tender, were quoted at a discount in the Eastern cities in the period of suspension before the legal-tender quality was conferred upon them.[1] In California, where gold circulated all through the war, notes were taken at their gold value.[2] It would be

[1] W. C. MITCHELL, *History of the Greenbacks*, p. 153.

[2] BERNARD MOSES, *Quarterly Journal of Economics*, vol. iii., p. 1–25.

idle to claim that the arrangements adopted in California could have been extended to the whole country, or that the brief career of the demand notes can teach any very positive lesson; but there was a force in the legal-tender quality which must effectually prevent this natural course of events, and this should have been clearly foreseen. If a man owed $100 he could discharge his debt with legal-tender notes to the nominal value of $100, however much these notes may have been depreciated in terms of gold. Since debts were thus made payable in notes, and since practically all cash transactions soon came to be completed by the use of this medium, it was useless to make prices in terms of anything else than the new fluctuating standard. Thus, however different the situation might have been if men had been left free to choose or refuse, the fact is they were not left free, and the force of this piece of State interference was sufficient to cause gold to be quoted in the market along with cotton, wheat, or bonds in terms of notes, or, popularly, in terms of money.

The legal-tender act in effect merely changed the term "dollar" from being applicable to a certain quantity of gold and made it apply to a different item of wealth, namely, a right to receive something, some time, from the Government. This shifting of terms had no power to alter the ratio of exchange between notes and goods.[1] Prices of all these things expressed in notes rose and fell, but the

[1] For the effect of the legal-tender quality on the value of notes, see J. LAURENCE LAUGHLIN, *Principles of Money*, pp. 499–501.

notes as "dollars" grew in fifteen years to be looked upon as dollars, and since one of them was as valuable as another, of course their value was said to be uniform, a uniformity unquestionable but essentially meaningless.

This long experience with paper money, and that in the form of government notes, or bank-notes issued under government guaranty, wrought an important change in the popular conceptions of money. Money was said to consist of anything which "bore the stamp of the Government," something that depends for its value upon the "faith and credit of the nation." [1] This stamp, this faith and credit, became thus the essential features, whereas before they had been merely incidental features of money.[2]

As already observed, before the war, money, in most localities at least, meant specie. A bank-note had come to be thought of not as money, but as an evidence of debt essentially like the note of hand for which it was given in the first instance, a form of credit convenient in exchange. Its value was felt to depend wholly upon the credit of the corporation

[1] "All that it is necessary for a government to do to create money is to stamp upon what it would change into money 'its image and superscription,' and declare it to be money."—Representative BERRY of Ohio, *Cong. Record*, 43d Congress, 1st Sess., Jan. 31, 1874.

[2] "A financial system, to be independent and free from the control of aggregate capital at the money centres of the country, must be based upon the cardinal doctrine that it is the duty and exclusive prerogative of the Government to determine both the quality and the quantity of the currency which may be in circulation."—Representative WOLFE of Indiana, *Cong. Record*, 43d Congress, 1st Sess., Feb. 28, 1874.

which issued it. The relation in which the bank-notes were formerly issued was purely that of bank to customer. The Federal Government had no part in it; the State merely used its power to enforce the contract and protect note holders, in so far as possible, from fraud. The specie for redemption came and went according to the course of trade, and without attention by either State or Federal Government, further than the formal service of coinage and certification to the weight and fineness of such metal as might be presented for that purpose.

It is difficult to realize, or to overestimate, the importance of the change which had taken place, for now even the bank-notes seemed to come indirectly from the Government. Their value in no sense depended on the integrity of the banker who paid them out, and if ever redeemed they were lawfully redeemed in greenbacks. The action of Government in the legal-tender provision had cast a veil over the economic situation and concealed its true character. In this adaptation of the popular mind to the new situation we have a good example of the establishment of an institution by implicit consent, where the people are guided by superficial criteria, and where few have the interest to examine and hold in mind the real principles upon which the new system rests.

§ 4. In the first annual report of Secretary McCullough, after the return of peace, he recommended the speedy resumption of specie payments, and he proceeded to withdraw the notes from circulation as the treasury revenues would permit. His proposal

was fully approved by Congress, and in an act passed in April of 1866, a steady process of contraction was provided for.

The action of Congress, in providing for resumption of specie payments, gave a new basis for confidence in the credit of the Government, which was reflected in a rise in the value of the notes, which was equivalent to a fall in prices of goods and of gold. The people were apparently unable to see that such a fall of prices was the inevitable result of the appreciating credit which the notes represented, a process that must take place whether the actual quantity in existence was large or small. Attention was centred not on the underlying cause, but on this group of coincident facts, namely, low prices, inability to borrow interpreted as scarcity of money, and contraction of the currency. The shadow had almost completely replaced the substance as the cause of falling prices, and Congress was subjected to a rain of protests against the policy of contraction.

An act was accordingly passed without the President's approval, February 4, 1868, which fixed the volume of notes at $356,000,000,[1] the sum then outstanding.

The course[2] of prices followed that of the gold premium, varying from it more or less under the in-

[1] Increased by an unauthorized reissue by Secretary Richardson to $382,000,000, and lowered by the Resumption Act of 1875 to the amount now in circulation, $346,000,000.

[2] An interesting chart illustrating the price movements is shown by J. LAURENCE LAUGHLIN, *Principles of Money*, p. 220. See also Indianapolis Monetary Commission's *Report*, p. 468.

fluence of other important forces which have been described in the preceding chapter.

The attack upon Mr. McCulloch's policy of contraction, which reached a successful issue in the prohibitory act of 1868, laid the foundation for the real "Greenback Movement" which reached such startling proportions in the depression which followed the panic of 1873. Throughout the movement agitators constantly recurred to the contraction of the currency as the fundamental cause of distress, and demanded an elevation of prices by an extension of the volume of inconvertible notes. The first expression of this view as a national party issue appears in the platform of the Labor Reform Party adopted at Columbus, Ohio, February 22, 1872, as follows:

"*Resolved*, that it is the duty of the Government to establish a just standard of distribution of capital and labor by providing a purely national circulating medium, based on the faith and resources of the nation, issued directly to the people without the intervention of any system of banking corporations, which money shall be legal-tender in the payment of all debts, public and private."

This, which may be taken as the first word, came from the proletariat: the agricultural element of the population, where the burden of debt was heaviest, did not become desperately aroused until the panic of 1873 had ushered in the long and distressing period of liquidation and low prices. It was in the session of 1873–74 that the whole subject was

threshed out on the floors of Congress, and the debate issued in a bill to increase the volume of legal-tender notes to $400,000,000. The effort failed through the veto of the President.

While the speculative wave which came with the industrial change spread over the whole country, yet it was in the new West that the highest level of speculative activity and the greatest degree of economic depression occurred. It was also in the West that the psychological effects were most apparent, the institutional change most clearly defined, and the greenback mania assumed its most extreme form.

§ 5. This new money, which cost the Government nothing, seemed to the people as good as gold. It paid the soldier, built the railways, lifted the mortgage from the farm. What more could be asked of any sort of money? It was the money of the common people; it served all their purposes when they had it, but now it was apparently growing scarce. Bankers said they had none to lend, debtors had none with which to pay. Buyers found money scarce and were unable to pay the old prices for products. Everybody was afraid to buy for fear that when he wished to sell he could not "get his money back." These were the practical facts, superficial though they may have been. Business was drooping; values had all gone to pieces apparently for the want of that which it cost the Government nothing to supply.

The discontent grew with the steadily falling prices, and as the dissatisfaction increased the peo-

ple, who had heretofore been wholly occupied in industry and trade, now turned attention more directly to the cause of the prevailing depression, and a conspicuous fact was the new relation which subsisted between them and their Government. The first glance seemed to show the presence of the Government in all their most important business affairs. Their discontent rendered them especially susceptible to any suggestion as to its cause and to any proposal of means for relief. They were not in a position to see and unravel the complex influences which had brought on their trouble, and turned to the representative men in public life for the needed explanations.

The errors of theory which these explanations embodied, and upon which the agitation for more money was based, may be shown in a series of propositions appearing in the debates of Congress.

(*a*) In the first place we have an illustration of the dangerous half-truth. Since the value of a commodity, as gold, was determined by demand for the thing and the supply of the same, so now it was assumed, and urged, that the value of promises to pay was dependent on the same law of demand and supply. The terms "gold" and "promises" were not used, but the ambiguous term "money" was used instead of both, so that the two propositions became identical. The law applicable to the material standard was asserted to apply to the medium which represented the new immaterial standard.

"A currency good in the payment of all debts would

fix the price of commodities, and the value of debts would be adjusted to it. The price would be high or low, depending on the volume of the currency." [1]

(*b*) The identification of the token with the thing for which it stood may be shown most clearly in the strange belief that the withdrawal and subsequent destruction of a greenback was an annihilation of just so much of the wealth of the nation, notwithstanding the manifest fact that no notes could be cancelled by the debtor Treasury until it had secured them by delivering equivalent wealth to the creditor holder.

"When you tell me that you will repeal the legal-tender act and burn up the legal-tender notes I tell you you will burn up $382,000,000 values in this country and you reduce to that extent, by $382,000,000, the property of the people of the United States of America." [2]

(*c*) If the value of the notes, or their purchasing power, depended on the volume issued, from the economic point of view, and if the stamp of the Government gave to money whatever value it possessed, the whole problem of prices passed over as by the wave of a magician's wand from the realm of economic law to the realm of legislation. Here was a way out of all the trouble which depressed

[1] Mr. MELLISH, of New York, *Cong. Record*, 43d Congress, 1st Sess., Jan. 10, 1874.

For an elaborate criticism of this, the Quantity theory, see J. LAURENCE LAUGHLIN, *Principles of Money*, chap. viii.

[2] Senator LOGAN, of Illinois, *Cong. Record*, 43d Congress, 1st Sess., June 11, 1874.

the people! Here was the time and place to make a new declaration of independence, an opportunity to throw off the galling yoke of natural law! For what other purpose did the Constitution give to Congress the power to "coin money and to regulate the value thereof"?

"I do not consult antiquated theorists of a hundred years ago to determine whether we have, or have not, enough money for the business of the country. . . . Being a practical man, I look upon things as I find them and will insist on a system of finance which has proven beneficial to our people." [1]

"Are we to be whistled down the wind and answered by theories from John Stuart Mill or from Bastiat? I hope not." [2]

"I feel compelled to regard the powers of Congress over the money of the Republic absolutely sovereign, complete, indivisible, and unrestrained. . . . It remained for the Congress of the United States, representing the most intelligent and the most highly civilized people of the world to coin 'the credit of the nation,' and it has thus wisely provided a lawful money for the people, an instrument of exchange more perfect than that of any other nation. In our progress and development a great stride was taken in monetary science when the Legal Tender Act of 1862 was approved by the President of the United States." [3]

(*d*) When these propositions were accepted it was useless to look further for the cause of the hard

[1] Senator CAMERON, of Pennsylvania, *Cong. Record*, Feb. 16, 1874.
[2] Senator MORTON, of Indiana, *Cong. Record*, Jan. 15, 1874.
[3] Mr. FIELD, of Michigan, *Cong. Record*, Jan. 10, 1874.

times. The suffering all came from a contraction of the currency. If it was answered that there had really been no contraction as yet, the reply came quickly that, with the great development of trade and industry in the last few years, and the natural growth of population, the failure to increase the volume of currency was virtually contraction.

"It was then for want of money and not on account of too much of it, to meet his obligations that he [Jay Cooke] failed. . . . The injury in every instance can be traced to the want of money and not to a superabundance of it." [1]

"The Senate and the country may see and understand how and why it is that, however hard our farmers and planters may work and toil, however genial and fruitful the season may have been, however plentiful and refreshing the rains may have fallen on the fruitful soil of the West and of the South, prosperity for the want of money was, and is to-day, an impossibility." [2]

It has been said that the people were not in a position to see clearly the causes of the depression. What they did see was the net results of all the complex forces. These net results were falling prices and an inability to renew loans as they came due. The banks refused to lend, not for want of a circulating medium, but because of the inability of the borrower to assure the repayment of his accommodation. No doubt a large portion of the people believed that the banks enjoyed special advantages

[1] Mr. HUNTER, of Indiana, *Cong. Record*, March 27, 1874.
[2] Senator BOGY, of Missouri, *Cong. Record*, Jan. 5, 1874.

under the banking law, and in so far as they were creditors they were favored as all creditors are by declining values, granting that the loan is secure, just as debtors are favored by advancing prices. The attack on the banks was not an essential feature of the movement, but added much strength to it.

"The bankers draw coin interest on these bonds from the Government and pay no taxes upon them. The Government allows them to issue about ninety per cent. of the amount of their bonds in notes, thus without any cost to the banks except the tax on their issues increasing their interest-bearing capital ninety per cent. . . . Thus the people pay from thirteen to eighteen per cent. interest to the national banks on every dollar of 'Blackbacks' in circulation." [1]

"It defies the inventive genius of man to find out a financial system more variable in its effects, . . . more pernicious to society, and more disastrous to the peace of nations . . . than that of bank issues based on coin. During half the last sixty years both England and the United States have groaned and writhed under excruciating tortures caused by this vicious banking system and kindred principles." [2]

(*e*) Assuming then that producers were suffering from a dearth of legal-tender notes, and that Congress had power to remedy or increase this suffering, the attack of the inflationists was naturally directed at three specific acts: the contraction of the currency by the Secretary with the approval of Congress

[1] R. W. Jones, *Money is Power*, p. 44.
[2] R. W. Jones, *ibid.*, p. 46.

in 1865,[1] the guaranty of payment of bonds in coin by the Act to Strengthen the Public Credit,[2] and the determination to resume specie payment and redeem the legal-tender notes.[3] In this attack is seen clearly outlined the change in moral tone which had come over the country in a single decade. It is safe to say that no prominent man in public life would have dared, even in the darkest day of the war, to advise the perpetuation of the legal-tenders, or the scaling down of the bonded debt, even when the bonds were issued in exchange for notes. With this attack upon Congress and the Treasury came a vociferous abuse of capitalists in general, of which the following is a fair example:

"We have doubled the indebtedness of the tax-payers of the country by agreeing to pay the five-twenty bonds in gold, when they were contracted to be paid in greenbacks; but that does not satisfy the insatiate greed, the voracious appetite of the Shylocks and sharks, the bankers and brokers, the money mongers, and gold worshippers, of the country.

"No, sir, these lineal descendants and next of kin to the sordid and mercenary crew whom the Saviour of the world when on earth whipped and scourged from the temple at Jerusalem, must add to the intolerable burden of debt of the people by bringing the price of everything down to the standard of gold, by contracting the currency for the purpose of accomplishing that sublimest of

[1] *Report* of Secretary of the Treasury, Dec. 4, 1865, and Resolution of House of Representatives, Dec. 18, 1865.

[2] Act of March 18, 1869.

[3] Consummated under the Resumption Act of Jan. 14, 1875.

all follies in the present condition of the country—the resumption of specie payment." [1]

(*f*) More important than the attack upon the creditor class itself was the symptom of social disease indicated by this new and distorted view of the obligation of the Government's contract,—the pledged "faith of the nation," which by these same partisans was said to make the notes as good as gold. Men would assert that the value of the promises of this great nation never could depreciate, and in the same debate gloat over the fact that claims against the Government could not be enforced.

"The alternative now stands before us of expansion in some form or resumption; 'commercial life or commercial death,' either diffusion of wealth or monopoly of wealth. The question involves the prosperity of the producer, else the enrichment of the non-producer; whether the laborer shall walk more erect or the capitalist more proudly strut." [2]

"It is known to every gentleman that you passed an act in 1869 saying you would redeem this debt in gold. Suppose you did. It did not form any part of the contract. It was a legislative act and bound nobody. Whenever you repeal it it is at an end." [3]

(*g*) Another belief that appeared to be widely accepted was that an increase in the supply of notes would lower the rate of interest. When speakers

[1] Mr. BUCKNER, of Missouri, *Cong. Record*, March 28, 1874.
[2] Senator FERRY, of Michigan, *Cong. Record*, March 10, 1874.
[3] Mr. BRIGHT, of Tennessee, *Cong. Record* March, 28, 1874.

or writers referred to the need of "cheaper money" it is sometimes difficult to tell whether money of low purchasing power or a low interest rate is meant.[1]

This error is relatively unimportant since the question of interest sinks into insignificance when plans for scaling down the principal are under consideration. The utility of this theory came from its convenience in affording evidence of the scarcity of money. Did not a rate of from ten to twelve per cent. for loans prove beyond a doubt that more money was needed?

Finally, in order to buttress this theoretical structure illustrations from history were given, and alleged conditions were described with an utter disregard of facts. As an instance one writer[2] asserts, to prove the influence of the quantity of money on prices, that "the United States had $1,800,000,000 paper in January, 1866, and prices ranged high accordingly in that money; this year [1877] the volume of money is little over $800,000,000, and prices are low accordingly."

False assertions such as this could be cited in great number serving to establish the errors and inflame the people.

[1] "Cheap money is the one thing needful for the agriculturist and productive interests of this country. . . . Cheap interest is what we want. . . . Give us the means, give us a sufficiency of circulation to make interest cheap. . . . This is what we ask of Congress." —Senator GORDON, of Georgia, *Cong. Record*, App., Jan. 20, 1874.

[2] R. W. JONES, *Money is Power*, pp. 60 and 61.

As a matter of fact, the entire circulation of the country, specie, greenbacks, certificates, and bank-notes, was, in 1866, $714,702,995, while in 1877 it was slightly greater, being $722,314,883.—*Finance Report*, 1897, pp. cxxxi.–cxxxviii.

These theories, supported by facts which did not exist, formed what may be called the erroneous intellectual basis of greenbackism. But this was only the basis of the movement; in order that the skeleton might be clothed with flesh and blood and quickened into life the emotions of the people must be touched and this point was not neglected. No flights of oratory were wanting. On this line the two Senators of the great State of Illinois may be quoted:

"If our country is not good, then our currency is not good; if our Government is good our currency is good, and with a Government so endeared to the people of this land that they would spend billions upon billions of money and rivers and rivers of the best blood to preserve it, I ask you where the man is who will stand up here and curse it and say it is not responsible for the circulation of the country." [1]

"Sir, I maintain for that legal-tender, to-day, that it is as good as gold. The honor of this nation is pledged for its redemption in gold; it will be, and shall be, every dollar, redeemed in gold. We will never repudiate a dollar or a dime of it. Sir, it has upon it the impress of the best faith of this nation. It is the money sealed and sanctified with the best blood of the Republic. . . . It is a noble currency, a grand trophy of the war, and held dear in the heart of every American citizen." [2]

This is the stuff that successful campaigns are made of. Next to the harm done to the credit of

[1] Senator LOGAN, *Cong. Record*, App., March 17, 1874.
[2] Senator OGLESBY, *Cong. Record*, Feb. 19, 1874.

the country by threats of repudiation, this glorification of the irredeemable greenback has been one of the worst and most lasting relics of that memorable contest.

The belief in an arbitrary shifting of values by every variation in the volume of notes led to another view less extensively held, no doubt, but yet of serious effect, and that was that Congress and the Administration were in the corrupt control of the financial interests against the producing or borrowing interests. As the farmer brooded over his misfortunes and was stung with the feeling of injustice in addition to the realization of loss; as the conviction became more and more impressed that he had not only been betrayed by his representatives, but deliberately robbed of the result of his labor and the patrimony of his children, he was ready to believe the demagogue who could explain it all and point out the remedy. This psychological stress was made the more tense and socially effective by that concentration of dissatisfaction in agricultural and rural environment which characterized the West and South.

It was seen in an earlier chapter that the monetary sentiment of the country in 1832 was organized politically on the issue which was first raised in Congress by the action of President Jackson. In an analogous manner the doctrine of inflation, which we are now examining, rose to the dignity of a political question through the congressional debate which followed almost immediately on the panic of 1873. In both cases the discussion took place between men

who were not elected on that specific issue and by men who were therefore relatively free to express their true and unbiassed convictions. For this reason the debate on the "Inflation Bill of 1873" is peculiarly instructive.[1]

The result of this debate, objectively speaking, comprises seventeen hundred columns of the *Congressional Record* and occupied almost the entire attention of both Houses during the long session of the Congress beginning December 1st. In this voluminous compendium we have gathered together what is probably the most interesting body of economic theory, from the point of view of the curio-hunter, that American public records afford. The advocates of inflation were in the majority[2] and the bill to increase the circulation of greenbacks to $400,000,000 failed to become law only by the veto of President Grant. The quotations in this section are taken almost entirely from this discussion, as illustrating the views of the most representative body of men available. It may be observed that the inflationist advocates were not confined to either of the great parties nor to any section. The map, which is inserted at the front of the book, will show, however, that the proportion of Representatives voting for the bill was greatest in the West and South.

The map is made by dividing each State into areas proportional in size to that of the factions into

[1] A very searching criticism of this debate was made by Mr. C. F. ADAMS, in the *North American Review*, vol. cxix.

[2] The vote in the House was 140 to 102; in the Senate, 29 to 24.

which its representation in the House was divided upon the bill. Some discrepancies necessarily occur. Of the two hundred and ninety members present, forty-eight cast no vote, and corresponding areas of the map are uncolored as are also the territories.

Greenbackism proved to be a weaker movement as a direct party issue than did the non-partisan measure of 1873–74. The temporary relief of more prosperous times and the strength of the old party ties resulted in practical abandonment after a single decade of struggle. The element of the discontented and aggrieved found a more promising field for their powers of agitation in another movement which was already taking form; for while the silver movement offered the essential benefits which greenbackism sought it held out certain important tactical advantages.

CHAPTER VI

THE MOVEMENT FOR THE FREE COINAGE OF SILVER

§ 1. The beginning and cause of the agitation. 2. The new frontier. 3. Speculation, debt, and depression in the new West and South. 4. Farmers' organizations and their political importance. 5. The interest of the producers of silver. 6. Scientific support given to the movement. 7. The inflationist element in the agitation. 8. The psychological effect of the purchase policy. 9. An examination of the monetary demand for silver.

§ 1. As was intimated at the close of the preceding chapter the discontented elements were not ready to abandon the field on the failure of their project for the expansion of the note circulation, but gave their influence unreservedly to the movement for the free coinage of silver which was already making its appearance.

In the revision of the coinage laws by the Act of February 12, 1873, the standard silver dollar was dropped legally, as it had been dropped commercially more than twenty years before. In the light of existing facts the measure was unimportant. Silver was in good demand abroad. Worth a little more than gold at our legal ratio, silver would have been exported even if this country had been on a

specie basis, just as it had been exported for many years before the war. The real significance of this act of 1873 appears only in the light of subsequent events, and those of a character which could not have been foreseen when the act was passed.

The "silver issue" made its first appearance in a somewhat indirect way. A large increase in the world's product had caused the price to fall, and in May, 1876, Mr. Bland, as Chairman of the Committee on Mines and Mining, introduced a bill in the House "to utilize the product of gold and silver mines and for other purposes," [1] providing that owners of either kind of bullion might deposit the same at the mints and assay offices of the United States and receive therefor "coin notes"; for gold at its lawful coinage value, and for silver at the rate of 412.8 grains (standard) to the dollar. These notes were to be full legal tender according to an amendment which the committee itself proposed. No limit was placed on the transactions, and the notes were to be redeemable in the coin made from the bullion deposited.

While the discussion turned chiefly on the question of parliamentary order, since the larger question involved properly belonged to the Committee on Banking and Currency, it served to disclose this larger question with fair distinctness, and to define the issue which was destined to engage Congress and the country for twenty years. But its greatest significance was in emphasizing the vital relation in which the mining interest stood to the whole subject

[1] 44th Congress, 1st Sess., *Cong. Record*, vol. iv., p. 2917.

of silver coinage. The issue here made was essentially that of protecting an important industry by appeal to our established policy. The monetary questions involved were academic. Resumption was nearly three years away, and the "coin notes" proposed being more valuable than the greenbacks[1] would hardly have circulated, except possibly in the far West, where the principal deposits would be made and where a specie circulation had been maintained.

A circumstance which is very significant for the silver movement, which antedates resumption, was the fact that the value of the notes in its normal upward progress encountered the falling value of silver, which in the minds of many was a possible medium of redemption. Moreover, this conjunction in value of the depreciated media took place in the midst of great financial depression when many were doubting both the justice and practicability of carrying out the resumption program.

The theoretical material with which the long contest was waged may be gathered from three conspicuous debates in Congress. The first of these issued in the Bland-Allison Act of 1878. This act provided for the purchase and coinage into "dollars" of no less than two million dollars' worth of silver every month, but the discussion of the bill dealt with free coinage. The pith of it has been collected and ably criticised by Professor Laughlin who also

[1] The average gold value of the silver dollar for the calendar year 1876 was 89.4 c.; paper value, 89.8 c. But the gold value of paper for the fiscal year ending June 30, 1876, was but 87.4 c.

abstracts the message of President Hayes whose argument in favor of sustaining the national credit was ineffective in preventing the passage of the compromise measure.[1] Again, in 1890 a voluminous discussion resulted in modifying the silver-purchase act to the advantage of the silver interests. Extracts from this debate and a searching criticism are made by Mr. Robert F. Hoxie,[2] and need not be repeated here. Finally, the spirited contest in the special session of 1893, when Congress was forced, not by any change of sentiment on the subject but by the logic of events, to repeal the act of 1890, practically closed the issue as far as Congress was concerned.

As in the greenback movement, these congressional debates afforded the stock arguments for ensuing political campaigns, but the friends of silver secured a coign of vantage which their predecessors failed to get, in that they succeeded in making their cause a central issue between the two great parties in a national campaign. Here it was that all the theoretical, historical, and emotional material was concentrated and, strengthened by the prevailing depression, was used with telling effect in 1896.

With this one mighty effort the struggle ended. The issue was squarely made, vigorously fought on both sides, and apparently settled. The consideration of silver in 1900 was half-hearted and perfunctory. With the landslide in 1896, the revival of business, and the subsequent course of silver in

[1] *History of Bimetallism in the United States*, 3d ed., p. 218 *et seq.*

[2] *Journal of Political Economy*, vol. i., p. 535.

the market the question of the "double standard" seems to be no longer a matter of serious concern to any large portion of the people.

§ 2. In seeking the causes of the struggle for silver we have first to deal with another westward wave of settlement. Following the hard times of the middle seventies, when the grasshoppers in Kansas, and floods in the Ohio valley, ruined the harvests in which many a forlorn hope was centred, there came a period of unusual prosperity in agriculture. Abundant crops, here, corresponded with deficiencies in Europe. With an abnormal demand, the lowered freight rates and storage charges operated to the advantage of the American farmer, who practically controlled the market, so that the years 1878–81 were said, on the whole, to have been the most prosperous that the history of American farming records.[1]

The result was that the facilities available for agricultural extension were put to their utmost use, and of these facilities the railway was, next to the soil itself, perhaps, the most important factor. The extension of roads so rudely interrupted in 1873 now began anew. The policy of Federal land grants had been stopped, but grants already made had not been fully utilized, and investors were once more ready to absorb inflated securities.

"In the years 1880–1882 we built 29,000 miles of railroads, an addition of thirty-four per cent. to the railroad

[1] THORSTEIN B. VEBLEN quotes with approval from the report of the Commissioner of Agriculture to this effect. "The Price of Wheat since 1867," *Journal of Political Economy*, vol. i.

mileage of the country. Not more than one third of these were justified by existing business. Another third perhaps were likely to be profitable at some future date. . . . Of the remainder some were built to increase the power of existing systems, where they were not needed, and not likely to be needed on their own account. Some were built to put money into the hands of the builders as distinct from the owners. Some were built to sell as a blackmailing scheme against other roads." [1]

The great extension of this period was in the Southwest and in the mountain States,[2] as the development ten years before had been in the upper Mississippi valley. The mileage added to the Southwest in the four years after 1879 amounted to an increase of 126 per cent., while the increase in the mountain region for the same period was 168 per cent.[3]

The frontier line of 1870,[4] which marks the Western limit of settlement to the density of six or more to

[1] A. T. HADLEY, *Railroad Transportation*, p. 52.

[2] The States showing the greatest activity in railway extension, with percentage of increase, are the following:

The South, as a whole, east of the Mississippi, from 14,817 miles to 28,904—95 per cent.

The West:

Texas	From	3244	to	8710	miles	168 per cent.
Colorado	"	1570	"	4291	"	173 "
Dakotas	"	1225	"	4720	"	285 "
Kansas	"	3400	"	8892	"	161 "
Nebraska	"	1953	"	5408	"	177 "
Washington	"	289	"	2005	"	590 "

Statistical Abstract of U. S., 1895, p. 320.

[3] HADLEY, *ibid.*, p. 38.

[4] See frontispiece.

the square mile, corresponds approximately with a straight line drawn westward from the northern point of Lake Michigan to Minneapolis, thence to Council Bluffs on the Missouri River; from this point to the 97th meridian and along that line to the Gulf. The unsettled region includes nearly all of Minnesota, all of the Dakotas, more than half of Kansas, Nebraska, and Texas, with all the region farther west except the California coast and a few very small areas in Utah, New Mexico, and Oregon.

By 1880 the frontier is moved forward to the 99th meridian, while a portion of Colorado is added and all the far Western areas of settlement have grown in size. In 1890 this farmers' frontier, as it might be called, followed roughly the 100th meridian. There had been in that decade, however, a great increase in the area settled to the extent of from two to six to the square mile, so that the movement across the plains had, in Kansas and Nebraska, reached the settled area that had been enlarging by eastward extension in Colorado, Wyoming, and New Mexico. The miners' frontier had mingled with that of the stockmen and they are no longer distinguishable east of the great arid region which lay between the Rocky Mountains and the Sierra Nevada.

The effect of railway development on the movement of population is thus described by the Director of the Census:

"In Michigan there has been a very decided increase in the settled region. In Wisconsin the unsettled area is rapidly decreasing as railroads stretch their arms out over the vacant tracts. In Minnesota and in Eastern

Dakota the building of railroads and the development of the latent capabilities of this region in the cultivation of wheat have caused a rapid flow of settlement. . . . Of all the States and Territories of the Cordilleran region Colorado made the greatest stride during the decade. From a narrow strip of settlement extending along the immediate base of the Rocky Mountains the belt has increased so that it comprises the whole mountain region. This increase is the result of very extensive and very rich mineral deposits. . . . Miners have spread over the whole mountain region till every range and ridge swarms with them. In Washington Territory, which in 1870 had been scarcely touched by immigration, we find the valley west of the Cascade Mountains tolerably well settled throughout, while the stream of settlement has poured up the Columbia into the valley of the Walla Walla and the Snake rivers." [1]

By 1890, Montana, Wyoming, Idaho, Washington, South Dakota, and North Dakota had been added to the sisterhood of States. Colorado also belongs to this period, admitted in 1876, and the Territory of Oklahoma had been formed. By 1900 an interesting change had taken place, for the map shows a well-defined retreat of population. The miners' [2] frontier is a well-defined line from Deadwood, South Dakota, to El Paso, on the Rio Grande,

[1] Census of 1890, *Population*, vol. i., pp. xxv.–xxvii.

[2] The terms "miners'," "stockmen's," and "farmers'" frontier are not intended, of course, to have too exact an application. Neither can the term "frontier" itself have a uniform meaning, since at one place a town surrounded by wilderness might make the same showing in statistics of the county or State that a sparsely but evenly settled rural district would make.

lying at nearly every point west of the 103d meridian, while the farmers, having pressed too far into the arid plains, have fallen back almost to the line of 1880. The abandoned strip extends from Canada to Mexico, varying in width from one hundred to two hundred and fifty miles, bearing silent testimony to blighted hopes.[1]

Some idea may be had of the degree of the westward movement of the agricultural interest from the movement of centres of this industry. In 1880 the centre of farm values in the country was in Indiana, near Muncie; by 1890 it had shifted to Decatur, Illinois, 170 miles. From 1890 to 1900 it moved to Jacksonville, eighty miles.

The centre of wheat production in 1880 was in Illinois, south of Galesburg; 1890 found it down on the Missouri River, 160 miles away, while in the next decade it shifted sharply to the northwest, 170 miles. The centre of corn production has remained in western Illinois since 1880.

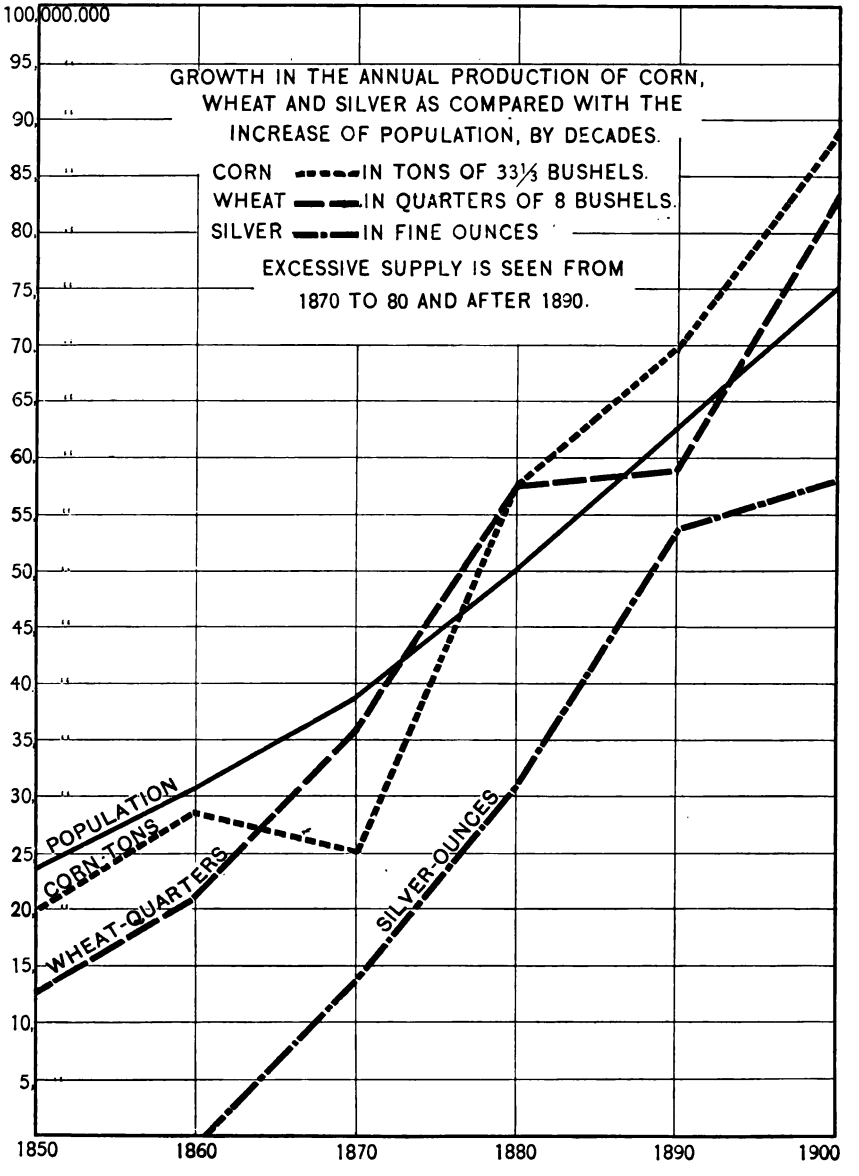
The map has shown, therefore, a strong forward movement in the eighties, continued with less energy in the nineties, followed by a well-marked recession at the close of that decade.

To say that this rapid movement westward was accompanied by a high degree of speculation and increased production would only be to repeat what may now be considered a general principle applying to each period of settlement along the frontier, induced by better transportation facilities and high prices. The accompanying chart has been

[1] See map, frontispiece.

introduced to show the effect of the impulse given to certain staple products in order that the growth in the production of these may be compared with the growth of population. The production of corn and wheat being available only for census years, that of silver has been taken for the same years. It will be observed that in 1870 there were produced for 38,000,000 of population 13,000,000 ounces of silver, 25,000,000 tons of corn, and 36,000,000 quarters of wheat, that is, approximately, one-third of an ounce of silver, seventeen bushels of corn, and eight bushels of wheat per capita. In 1890, for 62,000,000 population, an increase of forty-three per cent., there were 54,000,000 ounces of silver, three hundred per cent. increase; 70,000,000 tons of corn, one hundred and fifty per cent. increase; and 56,000,000 quarters of wheat,[1] fifty per cent. increase. The per capita production of silver had been increased nearly threefold and that of corn had doubled in twenty years. It will also be noticed that the variation between the beginning and end of the seventies has no counterpart in any other decade since 1850 if we disregard the production of silver when it was too small to be worthy of note. It is also significant that the decade after 1880 starts with a wheat production more than twice as great as the production of ten years before, while the levels attained by corn and silver show practically the same proportion of increase. That

[1] The wheat crop for 1889 was below the normal, 45,000,000 bushels, as against 61,000,000 in 1892. Taking an average of several years about 1890, the result will show a more important increase in the per capita production of wheat also.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GROWTH IN THE ANNUAL PRODUCTION OF CORN, WHEAT AND SILVER AS COMPARED WITH THE INCREASE OF POPULATION, BY DECADES.
CORN IN TONS OF 33⅓ BUSHELS.
WHEAT IN QUARTERS OF 8 BUSHELS.
SILVER IN FINE OUNCES
EXCESSIVE SUPPLY IS SEEN FROM 1870 TO 80 AND AFTER 1890.
POPULATION
CORN-TONS
WHEAT-QUARTERS
SILVER-OUNCES
1850
1860
1870
1880
1890
1900

CHART II.

is to say, the eighties began with a scale of production in each of these lines which forebode disaster in case of any check to foreign demand.

§ 3. If the mere general facts of enormous production in staple lines are insufficient to establish the presence of a high range of speculation in the industrial activity following 1880, some statistics of the indebtedness of the agricultural element give further evidence. That the new railways were in debt practically to the full amount of their cost is thought to need no proof.

The accompanying chart is constructed from data taken from the eleventh Census. The States selected are (1) Connecticut, as typical of the most conservative and stable group, and (2) Indiana as a type of the Ohio valley. The conditions in that State are average for the region. During the period examined the mortgage debts of Ohio were less fluctuating and, on the whole, declined. Those of Illinois were somewhat more variable than the debts of Indiana and, on the whole, increased more than did the debts of Indiana. With the condition of farmers in these States that of the farmers in (3) Nebraska, typical of Western agriculture, (4) Colorado, typical of a mixed mining and farming industry, and (5) Alabama, a representative of the Southern plantation States with important mineral interests, can be compared.

In the chart the broken line represents the rise and fall of the mortgage debts, in millions of dollars, while a straight line corresponding in color to each broken line represents the change which took place, in that State, from one census year to the next,

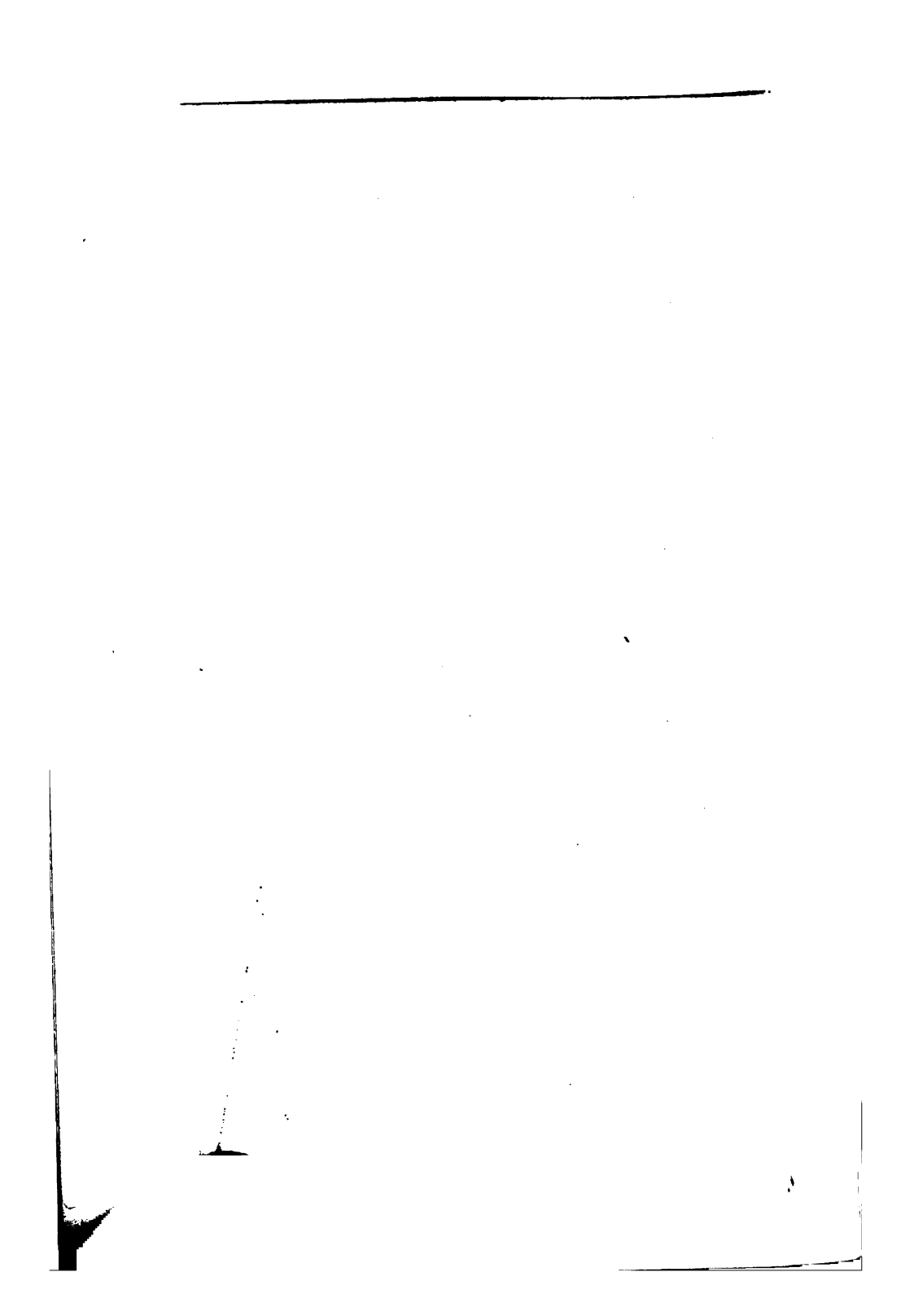
in the acreage employed in farming, and which formed the security basis for the debts contracted. These lines change direction by millions of acres.

Thus in Connecticut the period begins with $2.45 of debt for each 2.2 acres of farm land. The debt reaches a maximum in 1887 of $3.10 to practically the same area of land, declining to little more than a dollar on the acre in 1888.

Indiana begins the period with $15 of debt to 20.4 acres, raising the debt in two years to $19.80 upon practically the same area. After a very irregular course the decade closes with $22.50 to an area slightly reduced, a net increase of fifty per cent. for the whole period, while the debt line seems to be rapidly rising.

The debt line of Nebraska is in some respects less instructive because of the tremendously rapid increase in the acreage involved. In fact, it is the acreage line which is most interesting, rising from 10 millions in 1880 to 22.5 millions at the close of the decade, after which its course continues with little change. The rise of debt is, however, more rapid, that is, from 7.5 millions in 1881 to its maximum, in 1887, of 26.2 millions. Thus while acres increase 125 per cent. in ten years the debts grow approximately 250 per cent. in six years.

Colorado with a steady increase in acres presents a good example of the plunging movement in respect to debt. Increasing its debts more than threefold from 1881 to 1884, the line lowers sharply in 1886 only to mount to a new maximum after 1889 at a point some place beyond 16.5 millions. There



is a striking similarity in the shape of the line for the first half and second half of the decade.

The course of Alabama's line merely records the story of the land boom in that State from 1886 to its collapse after two eventful years. The course of the acreage line so far above that of the debts indicates the large areas in that State which, though technically included in the description, "farms," are, for all practical purposes, wild or unproductive land.

No effort has been made here to describe the mortgage debt on urban property. This rose in many States more rapidly than the debt on "acres." The subject would be complicated by facts immaterial to this study, namely, the drift of population to the cities of the older States, and the rise into importance of building and loan associations. If the cases of Western town "booms," so frequent in this period, could be clearly isolated they would form a very instructive study, though in the aggregate of less importance than the movements more directly touching production.

It is occasion for deep regret that the progress of these mortgage debts cannot be followed, but there are no available statistics on the subject after 1889. The interrogations in the Census of 1890 proved so unpopular that no attempt was made in 1900 to bring the material down to date. However, from the illustrations given it may be safe to say that the development in the later seventies and eighties with its tremendous production was taking place on a great extension of credit and when time for

liquidation came, with the usual accompaniment of falling prices, there must be the usual insolvency and discontent.

In order to get the social setting of this economic situation we may read with interest James Bryce's impressions on his tour through the West in 1881.

"It is the most enterprising and unsettled Americans that come West; and when they have left their old homes, broken their old ties, resigned the comforts and pleasures of their former homes, they are resolved to obtain the wealth and success for which they have come. They throw themselves into work with a feverish yet sustained intensity. They rise early, they work all day, they have few pleasures, few opportunities for relaxation. . . . Everything is speculative, land (or, as it is usually called, 'real estate') most so, the value of lots of ground rising or falling perhaps two or three hundred per cent. in the year. No one has any fixed occupation; he is a storekeeper to-day, a ranchman to-morrow, a miner next week. I found waiters in the chief hotel at Denver saving their autumn and winter wages to start off in the spring 'prospecting' for silver 'claims' in the mountains. Few men stay in one of the newer cities more than a few weeks or months; to have been there a whole year is to be an old inhabitant, an oracle if you have succeeded, a byword if you have not. . . . This venturesome and shifting life strengthens the heedless habits of the people. Every one thinks so much of gaining that he thinks little of spending and in the general dearness of commodities . . . it seems not worth while to care about small sums. The most striking alternations of fortune, the great coups which fascinate men and make them play for all or nothing, are of course commoner in

mining regions than elsewhere. But money is everywhere so valuable for the purposes of speculative investment, whether in land, live stock or trade, as to fetch very high interest. In Walla Walla, I found in 1881 that the interest on debts secured on what were deemed good safe mortgages was at the rate of fourteen per cent. per annum payable monthly." [1]

No part of the country was unaffected by the speculation in Western land. A man would go out to the new region, buy a farm or some lots for himself, and invest in others for the various neighbors he left at home. Colonies were established under the lead of agents. Towns were founded where nobody lived and hamlets were expanded into cities—on paper. Buying farms selected from a land-agent's chart, men took their wives and children, left the comparative comfort and the associations of an Eastern home, and went to an unknown region where perhaps a rigorous climate or an unproductive soil added sickness and poverty to loneliness and disappointment. Or, if his land proved productive, he often found the result of his labor absorbed by exorbitant freight rates and interest charges. He must sell his product at the only elevator and buy his supplies at the only store. He realized none of the benefits of competition when buying or selling, but was subjected to its most depressing effects in production. He seemed to contend with monopoly in every transaction of importance. His very existence as an independent citizen and producer demanded a change of this intolerable situation, and

[1] *The American Commonwealth*, vol. ii., p. 681.

his only recourse was to meet organization with counter-organization and seek from the State a relief from conditions which could exist only by the sufferance of law. In criticising the means which these people advocated for their relief there is no disposition to minimize the hardship which they were undergoing or to claim that their complaints were not well founded.[1]

The years 1886 and 1887 were marked by extensive labor troubles and much inflammatory teaching of anarchy and socialism,[2] as 1877 had been noted for similar agitations and the advent of the "tramp" as a new feature in American society. After the depression of the eighties there came a short respite in the hard times which suddenly broke in the most disastrous panic in our history in 1893.[3] This was followed by four years of hard times, marked by the

[1] A number of able writers of fiction have contributed to an understanding of the sufferings of the Western settlers. Hamlin Garland's "Under the Lion's Paw" has given the point of view of the man who had been "eat up four years hand-runnin' with grasshoppers." —A short story in the collection, *Main Travelled Roads.*

[2] "Anarchists of Chicago" (1886), J. E. GARY, *Century*, vol. xxiii., p. 803.

[3] "Between January 1st and October 31st—but mainly in the three months of July, August, and September—154 national banks, 181 State banks, 49 savings banks, 188 private banks, and 13 loan and trust companies, or an aggregate of 585 banks or banking institutions, suspended payment with liabilities of $169,000,000. . . . During the period above named $1,200,000,000 of the railroad property of the country was placed in the hands of receivers. . . . The number of failures for the year will exceed 16,000 as compared with 12,000, the largest number ever before reported in any one year."—D. A. WELLS, "The Teaching of Our Economic Experiences," *Forum*, January, 1894, p. 528.

great Debs strike, the industrial armies of "General" Coxey,[1] and almost universal distress among the producing classes.

§ 4. As suggested in the preceding chapter, one of the lessons of the war and of the industrial changes of that period was the power and method of organization where large common interests were involved. No criticism of the silver movement can safely disregard the farmers' societies which began to come into prominence in the seventies and grew in importance through the next decade.[2] The pioneer society was the Grange, or Patrons of Husbandry, founded in 1867. It led a checkered career and, organized in nearly every State, numbered by 1890 about 150,000 members. The importance of the organization is shown in the fact that while it remained aloof from politics its underlying influence was so felt as to give the names "Granger Laws," "Granger Cases," and the like a definite place in our historical terminology.

In 1880 the Cook County Farmers' Alliance which had been recently formed in Illinois became the National Farmers' Alliance, "to unite the farmers for protection against class legislation," and soon had local divisions from New York to Dakota.

[1] "Coxey's Army" (1894), W. N. BLACK, *Engineering Magazine*, vol. vii., p. 307.

E. L. GADKIN, *Nation*, vol. lviii., pp. 306, 322, 358.

[2] The facts stated here relative to farmers' organizations are taken chiefly from FRANK M. DREW'S "The Present Farmers' Movement," *Political Science Quarterly*, vol. vi., p. 283. See, also, Mrs. PAULINE SWALM, *Old and New*, July, 1873, for a contemporary account of the beginnings of the work of the "Granges," their organization and methods.

Another body destined to be more powerful than either of these was formed in the South under the name of the Farmers' Alliance and Co-operative Union, an amalgamation of the Texas Alliance and the Louisiana Farmers' Union.

Another Southern body took the name of the Agricultural Wheel, and sought to improve the condition of renters who were in the habit of mortgaging their crops before they were grown on such terms as rarely left anything for the planter. This society was not confined to the South, but spread northward as far as Wisconsin and by 1887 claimed 500,000 members. The Southern Alliance was also occupying Northern territory as it grew in power, so plans were laid for a union at a meeting which took place in St. Louis, December, 1889. A satisfactory basis of complete agreement was not found, however, and the Northern Alliance remained independent, suffering the loss of the organizations of Kansas and both Dakotas. These went into the St. Louis combination, now known as the National Farmers' Alliance and Industrial Union. Membership was thrown open to preachers, teachers, and doctors, residing in rural districts, as well as to mechanics, and editors of agricultural journals. The platform adopted at St. Louis was accepted by the Knights of Labor, and it was agreed that "the legislative committees of both organizations [should] act in concert before Congress for the purpose of securing the enactment of laws in harmony with the demands."

A declaration of principles was adopted, agreeing

closely with one of the National Grange in 1874 and that of the Texas body in 1875. Of the seven planks in the platform the first is sufficiently general to cover the ground,—"To labor for the education of the agricultural classes in the science of economical government, in a strictly non-partisan way, and to bring about a more perfect union of said classes." In 1890 this organization claimed a male membership of 3,000,000, while women were also eligible. This National Farmers' Alliance was incorporated and headquarters fixed at Washington for "there in the Capitol at Washington have originated the farmers' woes, and from that source alone can come the remedy." [1]

Next in point of numbers, perhaps, was the Colored Farmers' National Alliance and Co-operative Union. Originating in a local alliance formed at Houston, Texas, in 1886, it became national in 1888 and by January 10, 1891, claimed members in thirty States with a roll of 1,250,000, including both sexes.

The Farmers' Mutual Benefit Association was started in 1883 in Illinois, made national in 1887, and by the close of 1890 claimed 150,000 members.

In addition to these large bodies a great many others were formed, some gaining a strong local influence, some quite evanescent. The Supreme Association of the Patrons of Industry of North America, in spite of its long name, had a membership of 80,000 in Michigan alone in 1890. Others were less important as separate groups, but in the

[1] Address of the President, Fourth Annual Session North Carolina Alliance, August, 1890, p. 10, quoted by DREW, *ibid.*, p. 287.

aggregate the number of farmers which belonged to some organization at any date after 1886 must have been enormous, and the significant fact is that all had practically the same purpose in view, fairly expressed in the sentence quoted above from the St. Louis platform.

A number of these were federated or united at Ocala, Florida, in December, 1890, the St. Louis platform being accepted as a basis of agreement, and the confederation thus resulting held its first meeting in Washington, January, 1891.

Among the demands expressed at St. Louis, endorsed by the Knights of Labor and by the federating bodies at Ocala, the most important are the following:

1. The abolition of National Banks.

3. The free and unlimited coinage of silver.

5. That taxation shall not be used to build up one interest or class at the expense of another.

7. Public control or ownership of transportation and communication facilities.

Other demands sought to abolish speculation in grain futures,[1] and alien ownership of land. They would establish a graduated income tax and the election of Senators by popular vote.

The Northern Alliance met in Omaha in January, 1891, and adopted a series of demands including the four mentioned above.

The general purpose of all these organizations

[1] No irony was intended by this demand on the part of people, many of whom were writhing under the effects of their own speculation in land.

was laudable enough. They sought to elevate the people intellectually and to improve their condition socially and economically. They established newspapers without number, and there was scarcely a farmer throughout the country of average intelligence who was not a subscriber to one or more of these rural weeklies. The local Grange, or Alliance, or whatever its name might be, held meetings frequently, perhaps regularly. All sorts of subjects of interest to the farmers were discussed. Hundreds of lecturers travelled from place to place to address these meetings, and when one of these speakers was announced the whole country-side would flock to the appointed schoolhouse to hear him.

Taking this organized movement as a whole, and its methods of work, into consideration, it was no doubt the grandest university extension scheme ever put into operation. It is true that often a local organization would die out, but after a while another with a different name would spring up in the same place, just as many of the papers proved to be short-lived only to be succeeded by others. It made little difference what the organization or the paper was called, the same purpose pervaded all, the subjects discussed and the views taught were practically identical.

If times were good attention was given to matters of general culture, to better methods of farming, preservation of the soil, breeding of stock, and the like. If the period was one of depression, and it was then that the strength and influence of these societies were at their highest, they turned their

attention to the cause of the hard times and plans for amelioration.

It is at this point that the strength of those exotic and irrational institutions which followed the war was revealed in their tenacity. The whole propaganda was honeycombed with paternalism, greenbackism, and with views which, though not so avowed, showed a tremendous drift towards socialism. All the guns were aimed at one object of dread, a very ill-defined concept which is best conveyed by the term "Money Power." It would be hard to overstate the apparent learning and unction with which anathemas were hurled at this money power which, visibly represented by the railways, banks, and corporations generally, was described as insatiable as the vulture of Prometheus.

It must be cause for regret that with the splendid machinery at hand for a sound economic training these people heard little but the constant repetition of the erroneous views developed in the "greenback movement," with the slight modifications necessary to adapt them to the silver issue. Not only were the views based on error, but they were delivered with that cock-sure attitude which men can take whose hearers are not within a hundred miles of a well-equipped library. The speakers and writers,[1]

[1] The most inflammatory document of this movement that I have been able to find is entitled *Seven Financial Conspiracies*, by Mrs. S. E. V. EMERY. It was so widely accepted as to be called the Union-Labor Bible, and is well worth reading as an indication of the credulity upon which these teachers could safely rely. A short review is given in *Political Science Quarterly*, vol. vi., p. 291, by Mr. DREW.

often typical fanatics with minds impervious to counter-arguments, in many cases did not aim to deceive, they believed their doctrine was all as true as gospel, and that belief they supported by an array of historical data that fastened conviction on their hearers and aroused them to action.

Since this well-organized multitude, numbering several millions of voters, already had their faces turned towards Washington, it was almost inevitable that they should crystallize into a national political party, and that event happened with due formalities in the founding of the People's Party in May of 1891 at Cincinnati. The vitality of this movement is shown in the fact that three years from its organization it could boast of twelve[1] Representatives and six Senators.

The new party understood the significance of its achievement. The old parties understood it too. It was merely a question of time until the Republican or Democratic party would admit its principles in order to absorb its strength.[2] That this silver faction should capture the Democratic organization rather than the Republican may be looked upon as a political accident. Both parties had toyed with the principle of inflation, as the records of their leaders will abundantly demonstrate. Now, however, that the party lines were clearly drawn, the Democrats all became "Repudiationists" in just the

[1] The election of fusion candidates renders exact statement difficult.

[2] On the situation in Congress after the 1892 elections, see FREDERICK EMORY HAYNES, "The New Sectionalism," *Quarterly Journal of Economics*, vol. x., p. 269.

same degree of truth that the Republicans had fallen into the "corrupt control of the gold-bugs."

The memorable speech of Mr. Bryan at the Chicago Convention of 1896, which tipped the scale and secured his nomination, a vivid reminder of Jackson's messages against the Bank, was filled with illustrations of the superficial logic and emotionalism which carry away crowds of more than average intelligence. The following sentences are typical as showing the argument which wrought conviction and the emotional appeal which roused to action.

"Our ancestors when only 3,000,000 had the courage to declare their political independence of every other nation upon the earth. Shall we, their descendants, when we have grown to 70,000,000, declare that we are less independent than our forefathers? . . . We shall answer their demands for a gold standard by saying to them, 'You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold.'"[1]

With the adoption of the Chicago platform, the acceptance of which was, of course, a test of regularity, thousands of men, who cared little about the question involved, were swept into the support of the free coinage of silver.

§ 5. From the point of view of the monetary principles involved it is quite immaterial from what sources the gold and silver of the world may come, since under a system of free international exchange the world's supply and the world's demand are the

[1] Daily papers (Chicago), July 10, 1896.

only elements determining the value of the metals. In considering the production of silver as an industry exercising political influence and claiming legislative protection the question of origin does, however, assume some importance. At the time of the discussion which led to the Bland-Allison Act the product of the United States amounted to thirty-one million ounces a year,[1] that is to say, if coined it would produce over forty million standard dollars. More than half of this output of 1877–8 came from Nevada, the balance from nineteen other States and Territories, of which the four most important were Colorado, Utah, Idaho, and Montana in the order named. Nevada very quickly lost her pre-eminence and so far declined as to disappear entirely from the list of important silver-producing States.

The fall of the industry in Nevada is hardly more phenomenal than its rise in Colorado, whose product grew, as the accompanying chart will show, from four million ounces in 1878 to thirteen million in 1880, a scale of production which was fairly maintained for seven years.

During these seven years of Colorado's ascendancy the product of Nevada fell to the level at which its rival started ten years before, reviving slightly in 1878 only to begin another downward slide toward apparent extinction.

[1] The estimates given here and in the chart are taken from the Census of 1890, "Mineral Industries," p. 42, etc.; also for later periods from U. S. statistical abstracts. These statistics are given in coinage value," a basis which is quite illogical in the case of silver. They have been reduced to fine ounces, as the chart indicates.

Quite as striking as the history of silver production in either Nevada or Colorado is that of Montana. Beginning the period as the weakest competitor, the line showing the course of the industry in this State rose and crossed the declining line of Nevada in 1883 with an output of over four and a half million ounces and, continuing its upward course, reached the point gained by Colorado in 1887. From this begins the most tremendous increase in the silver product which the chart of the period discloses. Colorado's industry soars upward steadily for five years apparently unaffected by declining market or any other adverse conditions, reaching her record output of over twenty-six million ounces in 1892 and, though declining soon, she established a new level of production nearly twice as high as that established in 1880.

During this same period Montana has gone steadily upward, following only a little way behind Colorado, until her maximum is reached in the same year. This concurrence of maxima, so significant for the silver interest on the whole, is rendered all the more striking by the growth of the product of Utah, which rose from a very stable condition in 1888 to a level fifty per cent. higher in 1891–2.

Apart from the great increase in the total product of the country perhaps the most impressive lesson taught by the chart is the remarkable irregularity of the production of the period, an irregularity which cannot be attributed to the state of the world's demand.

The last statement, however, is subject to the

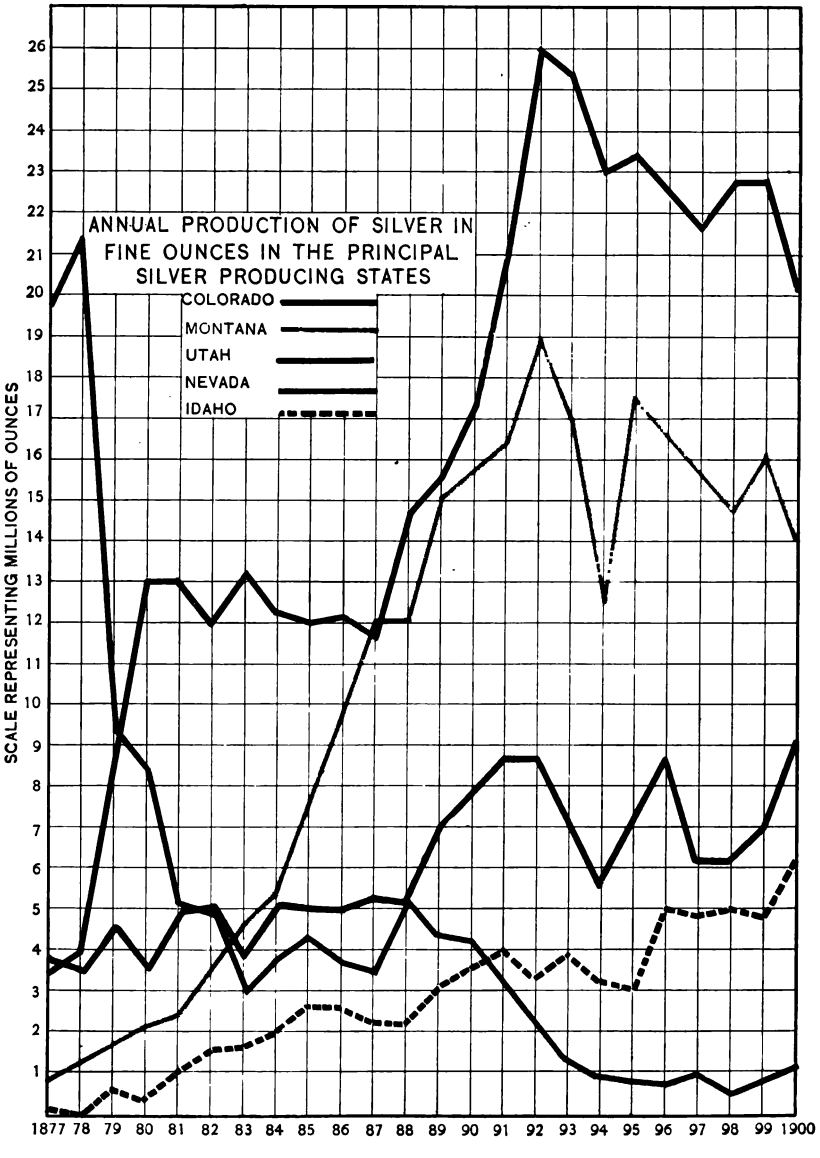

ANNUAL PRODUCTION OF SILVER IN FINE OUNCES IN THE PRINCIPAL SILVER PRODUCING STATES
COLORADO
MONTANA
UTAH
NEVADA
IDAHO
SCALE REPRESENTING MILLIONS OF OUNCES
26
25
24
23
22
21
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
1877 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 1900

CHART IV.

following qualification: While it appears that the increase in product has not been conditioned by its enhanced value, but rather by the ability to produce at lower cost, either by the use of better methods or the discovery of new sources, it is a reasonable inference that a decline in production is usually conditioned not by the absolute failure of the source but to the partial exhaustion of mines, reducing them to a marginal state that precludes their further profitable operation under existing conditions of the methods and the market. That is to say, as a rule, while new and rich sources are here and there discovered the old mines are not by any means lost. Any stimulus to the demand, therefore, would start operations in these marginal mines and enormously increase the total output.

Viewing the claims of silver, then, purely from the standpoint of an important industry deserving encouragement we must separate the interest as a whole from the interest of the marginal mine-owner. It can hardly be questioned that the industry as a whole was fairly profitable, sufficiently so to attract a constantly increasing investment of capital which yielded fair returns notwithstanding a declining market. In this silver shared with agriculture and the more important manufacturing interests. It is difficult to see how the successful silver producer had any claim for favor.

But how was it with the marginal miner? He could say that the industry was depressed by the fall of the price until he was forced to suspend operations. He would assign two causes: first, the de-

cline in the world's monetary demand; and, second, the appearance of more productive sources. That is, one cause which could be remedied, supposedly, by legislation and one that could not. His position was strikingly analogous to that of the Eastern farmer who could attribute the fall in value of his product, first, to Western development improperly stimulated by legislation, and, second, to richer sources of supply and cheap transportation anywhere in the world.

An estimate of the claim of the silver interest to an increase in the monetary demand of the United States is properly deferred to a later section. This element in the silver agitation was a constant quantity which formed a strong nucleus from the beginning of the movement in 1876. Around this other elements would gather or fall away, as other conditions of commerce, politics, or theoretical teaching would determine.

How strong the producing interest was, numerically, it is impossible to say. On this uncertainty the following quotation from the Census throws some light:

"The number of gold and silver mining 'claims' or 'locations,' commonly called 'mines,' in the United States is practically beyond computation. The names of nearly 100,000 of such claims or mines were received by the Census Office, but upon limiting the investigation 'to mines producing, working, or but temporarily stopped' the list declined to perhaps 10,000." [1]

[1] Census of 1890, "Mineral Industries," p. 33.

The strength of the mining interest in the mining States gives but an imperfect idea of its strength in national politics. The stock of these enterprises is held all over the country, and the fact that millions of this stock was wholly unproductive does not detract from its influence in giving a point of view to its possessor. It was at least a basis for hope. In this producing element the silver movement enjoyed an advantage to which nothing analogous existed in the greenback movement.

§ 6. In considering the elements of strength which the free-coinage movement enjoyed, the greatest, in some respects, was its scientific support. While the inflationist of the former period would refuse "to be whistled down the wind by Mill or Bastiat" the advocate of silver could find much comfort in the saying of the doctors. Some of the best-known economists had taught the doctrine of bimetallism and had issued warnings against the appreciation of gold. Of these teachers some evidently assumed a stage of commercial development which might be called a "money economy" as distinguished from a "credit economy." Others stated principles which they held applicable to uniform international practice and which they might have disavowed when proposing a coinage system for a single nation. By the radical free-coinage party who wished to quote from the books there appeared little occasion for any qualification of either bimetallism or the quantity theory.[1]

[1] It is not thought necessary to enter into the merits of the debate over bimetallism. Its insufficiency as a theory on which a system

There was, then, the silver-producing element which was not deeply concerned with theory, supported by an academic element unconscious of any direct interest in the question further than to serve the cause of humanity in advocating what it considered to be sound principles of public policy.

Supported by these two relatively constant quantities was a more variable element in the silver movement and the one to which the arguments were addressed and for the enlargement of which the political machinery was set to work. This might be called the inflationist element with two fairly distinct wings.

§ 7. There is little new to be said of this element: culturally it was a legitimate inheritance from the greenback movement. Personally it involved many individuals who had adopted the principles of greenbackism, who never felt that resumption and the gold standard were just, who believed that the financial conspiracies of the earlier period, including "the Crime of '73," were very real. They were won over to the free-coinage movement because it seemed to offer a currency plan which, though not so good as a pure system of legal-tender notes, possessed the essential advantage of enlarged means of payment. Many of these "inflationists of the old school" were not debtors. Many in the South and West had accumulated large property interests despite the hard conditions through which they had

of coinage can be based has been abundantly shown.—LAUGHLIN, *History of Bimetallism in the United States*, and WILLIS, *History of the Latin Union*.

passed, with some shrewdness and more of that dogged perseverance which wins in the end almost everywhere. They had nothing to gain by a depreciation of the standard, but stood for a principle, a well-defined and deep-seated conviction of the righteousness and justice of a system of currency which, as they thought, favored the poor.

The strength of this element was a splendid illustration of the thoroughness with which the lessons of earlier propaganda had been taught. They never questioned the quantity theory. They were convinced that plenty of money made times good,—how or why was not very important; experience had taught the fact, and that was sufficient.

Allied to this stalwart wing of the inflationist element was a group exceedingly variable in size which might be called the hard-luck wing,—men of speculative instincts, in a large degree, who had failed to draw the prize numbers in their business careers. Of this class the West and New South, as on former occasions, afforded the greater number. To relate the experience of these men, who are never ready to make the best of conditions with which they find themselves surrounded, who follow the mirage of fortune only to see it vanish, would be simply to repeat the stories of migration, debt, misfortune, and insolvency.

This element was variable not only because the conditions of pioneer agriculture suffered sharp variations, but also because of the mental qualities which determine the radical character. Men of this class are peculiarly buoyant in moments

of success, ready to promise almost anything in the confidence which present fortune brings. Such men, when burdened by debt which they are unable to discharge, often become despondent, complain at the better fortune of others, and are ready to attribute their own condition to some form of oppression on the part of Government or capitalists.

It was among these that the organizer and agitator did his most effective work as he went from place to place with the credentials of some farmers' society or secured space in the columns of some farmers' weekly.

§ 8. There was, finally, another element of strength in the movement, not of a personal character but one that might be called institutional. This was an incidental effect of the silver-purchase acts.

The people gave little heed to the peculiar confusion of principles which underlay the acts of 1878 and 1890. Under the first of these the Government took of its regular revenue two millions every month and bought silver bullion. It was intended that this metal when received should be paid out again in the form of coins or by means of certificates, taking the place, in regular disbursements, of the gold or greenbacks with which it had been purchased. Congress by this policy further entangled the fiscal and monetary functions of the Treasury, which had never been properly separated since the issue of circulating notes at the beginning of the war.

The policy of maintaining parity made it necessary for the Treasury to receive either gold or silver

at the option of the payer and disburse at the option of the creditor. The result was that from the first silver accumulated in the Treasury because the people preferred the greenbacks or gold. So rapidly did this accumulation take place that after the first eight months of the operation of the Bland Act only $8,000,000 were in circulation out of $36,000,000 of the silver that had been coined.

The Treasury issued a circular,[1] offering upon the deposit of gold to issue drafts payable in silver certificates at any of the sub-treasuries. This was virtually paying the expense of transporting money from the East to the West and South for the purpose of getting the silver certificates into circulation. This plan proved effective, even if expensive, until the crisis of 1884, when silver again began to accumulate, forming so large a proportion of receipts that the payment of gold on the public debt had to be stopped.

The next move in the process of forcing silver out was to stop all issue of greenbacks of less than five dollars denomination in June, 1885, and the result was to increase the volume of silver dollars outstanding, by $10,000,000, chiefly in the South. As a measure adapted to the same purpose an act of 1886 provided for the issue of silver certificates of one, two, and five dollars.

Finally, one of the most important steps taken for the same purpose was to ship silver dollars at Government expense to any part of the country in sums of $500 and over. This plan was put into

[1] September, 1880.

operation in 1886, and in twelve years had cost the Government $101,122.87 in express charges. The result of this was to keep the dollars in continuous circulation in those parts of the country where the bankers would realize the greatest saving of expressage by their use, and that was in the agricultural West and South.[1] The Eastern cities, and to a great degree the rural districts of the East also, used the certificates of small denomination along with greenbacks and bank-notes, in other words paper money, so that the money of the people was largely silver, — in the West, coined dollars, in the East, certificates.

In 1878 the discussion of free coinage was chiefly confined to Congress and financial journals. By 1890, after the depression in the preceding decade and the financial studies of the farmers' clubs, the question was far more truly a popular one and remained a people's question from that time on.

Before 1878, perhaps, no one would deny that the term "coin" on the face of government obligations meant gold. Many men, then twenty-five years old, had never seen a silver dollar. In the debates of the greenback movement "coin" and "gold" were used interchangeably on both sides. By 1890 not only had the silver question become a popular question, but twelve years' experience with silver dollars had given a very different meaning to the word "coin"

[1] An account of the efforts of the Government to keep silver in circulation is somewhat fully described by F. W. TAUSSIG, *Silver Situation in the United States*. See especially pp. 16 (note), 20, and 27–30.

in the minds of the people grown accustomed to silver. During all that time gold was rarely seen by those who only used small denominations in their exchanges; these were the laborers and farmers. A few times in the year the farmer received a large sum, perhaps, but this was paid with a check or settled in the balancing of accounts with the "general store," where he bought his supplies and sold his produce. When it was proposed to pay "coin obligations" in silver the farmer could see no injustice in it. His moral sense was not shocked at the suggestion. How could it be otherwise? By coining large quantities of silver dollars, and then by arbitrarily forcing them into circulation in every locality where it was possible to do so, Congress taught an important lesson to the South and West through the silver-purchase acts.

In the East this artificial displacement of gold and paper was not practicable because the saving of expressage by accepting silver prepaid was too small to overcome the popular preference for paper. In the East the silver dollars were never plenty, and to the people of this locality coin still meant gold. These people were from the first suspicious of silver and afraid of a "silver basis," though perhaps less able to explain the reasons for their views than were the farmers of the West and South who could justly claim to have "studied the matter."

To the Western man, then, the question of the silver standard was not moral but legal. Silver dollars formed the money which the people saw and used. They were a legal tender for debts as fully

as were gold coins. It was simply a matter of business to get as many of them as one could with a given expenditure of labor and time. The Eastern man emphasized the immorality of the proceeding, because to him it appeared to be a departure from fundamental principles of equity, which required that a debt be discharged by the same standard as that in which the contract had been made. Granting that in his business relations a man may stand on his legal rights, with little regard for the moral basis on which they rest, the true position of the legislator is entirely different. It is the work of the legislator to constitute or define these legal rights, and in doing so he must continually test his proceeding by the moral standard, and this standard is bound to be affected by his point of view. Moreover, this point of view is itself determined by his personal interest and his cultural environment in the widest sense.

Since neither party in the controversy could appreciate the point of view of the other party, the contest was enlivened by the bitterest recrimination. The wholesale charge of repudiation was no more just than was the other charge that a large proportion of public men were in the corrupt control of the money power.

§ 9. Silver producers depended on the theory that free coinage of that metal would raise its value. This opinion was generally accepted, and at first thought its correctness would seem to be self-evident. One effect of our policy of purchase and enforced circulation of silver is to raise a

very serious doubt whether any appreciable effect on the value of silver could be realized by the opening of the mints to that metal. Manifestly any such effect must arise from forces which would touch the supply of silver or the demand for the metal in actual circulation. During the three years when the Sherman Act was in operation the price of silver fell from $1.04 to $0.84 an ounce. The artificial demand created by the purchase by the Government of 4,500,000 ounces a month, in addition to whatever other normal demand existed, was not sufficient to sustain the value relative to gold above the ratio of, approximately, 25 to 1. In order that silver and gold should circulate together at a ratio of 16 to 1, granting for the moment the doctrine of bimetallism, the value of silver relative to gold must be increased fifty per cent. Not only must the existing annual product be raised in value, but also all the available stock, together with the product of mines which had been rendered unprofitable by the continuous depreciation, but which would now begin to market their potential product as the value of the metal rose. How great the increase in the product would be as the ratio dropped from 25 to 20, then to 18, and so on, it would be idle to guess; hence it would be useless to speculate on how great must be the forces tending to raise the value of silver to a point of fixity at the "legal ratio." However, before such speculation would be at all possible it must be shown whether any such forces existed at all.

As was stated in a former chapter the silver that

was bought from 1878 to 1893 always tended to lodge in the Treasury. The artificial devices for keeping it afloat by withdrawing the smaller greenbacks, giving free transportation to the silver outward, issuing certificates of small denomination, and selling domestic exchange at nominal rates payable in these certificates, have been sufficiently discussed to show the tendency towards stagnation in this part of the circulation. These expedients merely postponed the inevitable failure of the Treasury to maintain parity, inevitable because of the increase in the volume of certificates and token money at a rate of something over $2,000,000[1] a month, while the gold reserve, on which the parity of the whole depended, could not be increased except by purchase through the sale of bonds, thus increasing the interest-bearing debt payable in gold at the end. Not only did this part of the circulation bear with increasing weight upon the gold reserve, but as the silver and certificates and Treasury notes issued in payment for silver increased they displaced gold in circulation, caused its accumulation in banks, and led to its exportation in payment for depressed American securities, so that the reserve in the Treasury actually fell as the necessity for it increased.

In the accompanying chart[2] the long line reaching diagonally across the paper represents the stock of

[1] From 1878 to 1890 silver dollars, and after that Treasury notes of 1890 in sufficient amount to buy 4,500,000 ounces of silver bullion. The seignorage was a resource indeed, but not available. Its sale or circulation would only have increased the burden on the gold reserve.

[2] Compiled from Finance Report of 1898.

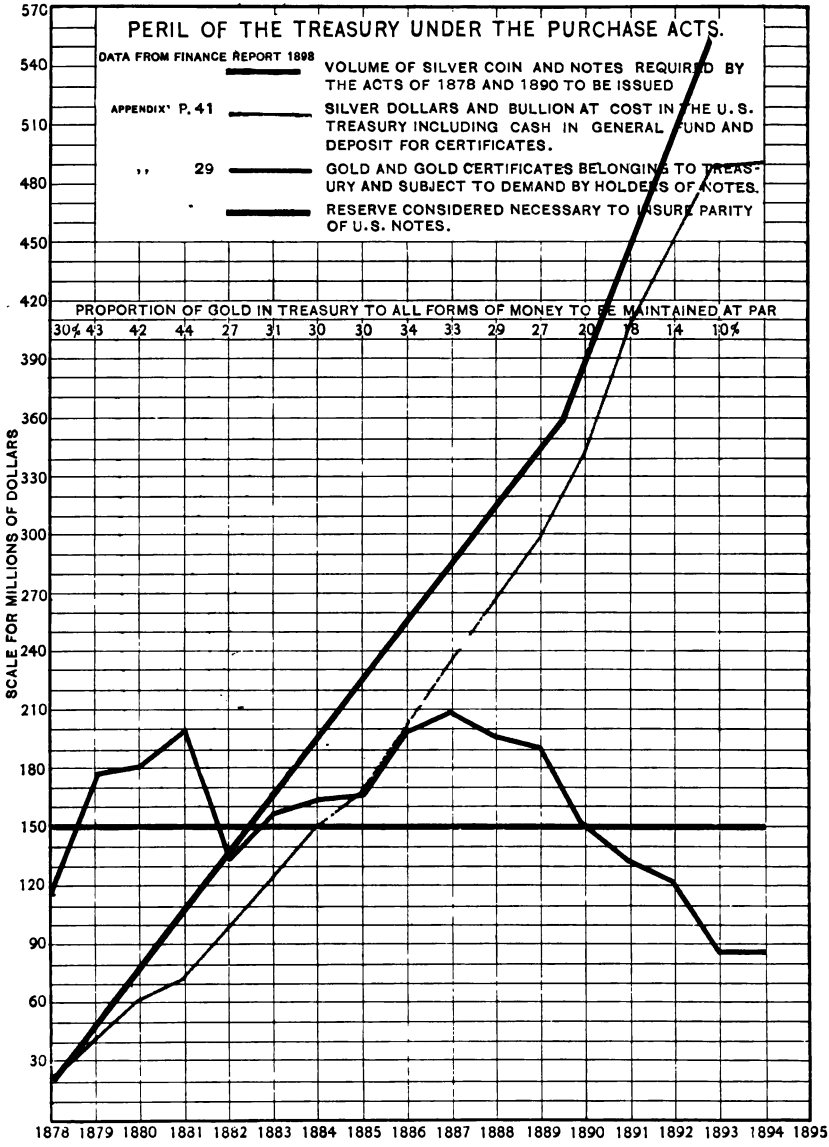

PERIL OF THE TREASURY UNDER THE PURCHASE ACTS.
DATA FROM FINANCE REPORT 1898
VOLUME OF SILVER COIN AND NOTES REQUIRED BY THE ACTS OF 1878 AND 1890 TO BE ISSUED
APPENDIX' P. 41
SILVER DOLLARS AND BULLION AT COST IN THE U. S. TREASURY INCLUDING CASH IN GENERAL FUND AND DEPOSIT FOR CERTIFICATES.
,, 29
GOLD AND GOLD CERTIFICATES BELONGING TO TREASURY AND SUBJECT TO DEMAND BY HOLDERS OF NOTES.
RESERVE CONSIDERED NECESSARY TO INSURE PARITY OF U.S. NOTES.
PROPORTION OF GOLD IN TREASURY TO ALL FORMS OF MONEY TO BE MAINTAINED AT PAR
30% 43 42 44 27 31 30 30 34 33 29 27 20 18 14 10%
SCALE FOR MILLIONS OF DOLLARS
570
540
510
480
450
420
390
360
330
300
270
240
210
180
150
120
90
60
30
1878 1879 1880 1881 1882 1883 1884 1885 1886 1887 1888 1889 1890 1891 1892 1893 1894 1895

CHART V.

silver and Treasury notes added to the money of the country in pursuance of the requirements of the purchase acts. The yellow line roughly parallel to it represents the silver dollars and bullion in the Treasury at the close of each year either on deposit against certificates or in the general fund; that is, the dollars not wanted by the people as a medium of exchange.

The broken line (colored green) represents the gold which was available to secure the parity of the steadily growing volume of demand[1] liabilities. The line of figures just above shows the percentage which the gold bore to all other forms of money depending on the gold reserve for parity. To get a proper realization of the effect of the increase in liabilities one need only compare the condition in 1882 with that of 1889. In the latter year the ratio of gold to obligations was no greater than it was in the former year, although there had been an actual increase in gold of approximately $60,000,000. This relative growth of liabilities was due entirely to the silver-purchase policy, and the displacement of gold in our circulation resulted in a steady fall of the reserve after 1887.

However, the purpose here is not to discuss the condition of the Treasury *per se*, but to seek light on the claim that the opening of the mints to silver would increase the demand for that metal. From the experience of the Treasury it cannot be doubted that the number of dollars of silver coined was far

[1] Demand liabilities in the sense that only by prompt conversion could their parity be maintained.

in excess of the demands of business for silver dollars, or even for certificates based on the deposit of such dollars, since in payments to the Treasury the proportion of silver and certificates tended to increase relatively to gold and notes. Moreover, after 1890 the bullion received through purchase would have produced, if coined, almost twice as many dollars as were paid out for it in Treasury notes.

It can hardly be doubted that under conditions then existing silver was redundant, had been so for years, and any new demand which free coinage could induce must be sought for in entirely new business conditions which free coinage might involve. No one could seriously claim that there was anything to be gained now by the legal-tender quality and "stamp of the Government." The dollars already in existence possessed these advantages fully and unqualifiedly.[1] No one could refuse a tender of silver dollars in discharge of an obligation expressed simply in dollars. This fact did not increase their popularity, since certificates, which, though payable in all cases to the Government, were not a legal tender for private debts, had always circulated more readily than had the legal-tender dollars, because of their greater convenience.

The most conspicuous change in the situation wrought by free coinage would be a general rise of

[1] The reservation in respect to standard silver dollars and notes in 1890, which made them not a legal tender for private debts where "otherwise expressly stated in the contract," was really no restriction since that was true of any form of money, according to Bronson *vs.* Rodes (1868), 7 Wallace, 229.

prices based on the silver standard. Just how high they would rise is difficult to say, but since foreign trade would remain on a gold basis goods would presumably rise with the foreign-exchange rate, and the rate of exchange would be an index to the depreciation of the standard. The mine-owner would get two silver dollars, we may say, where before he got one, but he must pay two dollars for the same goods or services which he before purchased for one. Now, the only increase in demand for silver that could be at all stable would arise from the fact that exchanges involving twice as many dollars of account would require more dollars of the metallic standard to be used as a medium. That is, that men would carry more dollars in pockets and store-tills, and banks keep more in their vaults. This theory involves the assumption of a money economy or more primitive methods of exchange than actually exist. It involves the erroneous view that an increase in the volume of transactions requires an increased use of the standard metal as a circulating medium.

The argument, in short, seems plausible that a new use for an article creates a new demand for it, and, other things remaining unchanged, the new demand will raise the value. The fallacy in this argument is a failure to observe that a new use may arise which does not increase the quantity needed. Silver dollars were already in circulation, already in pockets, tills, and vaults; to make silver do service as a standard does not require an increased quantity, and without the necessity of an increased quantity

there is no new demand in the sense that affects value.

Silver, like gold, is comparatively indestructible, and in 1896 all channels then open to it were congested by a purchase of 4,500,000 ounces a month. With the coinage of bullion already on hand, increased by practically the whole United States product, in the first instance, any new channels opened would certainly have been filled so quickly as to make the result very disappointing to producers of bullion. When any new channels opened by free coinage were thus filled it is difficult to see how the value of silver could have been materially increased or even sustained so long as a supply considerably in excess of the American monetary demand was actually produced at a cost of eighty cents or less an ounce.

This theory, that the free coinage of a metal, or an increase in monetary service which is involved in its adoption as a standard, gives it a greater value is a corollary to the quantity theory, and, like that theory, is a relic of a past *régime*. In both cases the functions of standard and medium have been hopelessly confused. If the value of a given volume of goods depends on the volume of the circulating medium, then manifestly the same volume of goods, with enhanced prices requiring a circulating medium of greater volume to make the exchanges, would cause the value of the medium to rise so long as its volume was not increased. Grant the first proposition and the second will follow. But since goods are to be high because silver is cheap, as the inflationists

contend, how can we say that silver will rise because of a new demand for it, as the producers contend it will do? Only by thinking of silver as a standard in one case and as a medium in the other can these two claims be made, and their irreconcilability is clear when the propositions are stated together.

The simple truth is that goods are high when the standard is cheap, and under modern conditions silver is cheap because its cost of production is low relative to that of other forms of wealth. The question of the volume of a medium of exchange does not enter into the determination of the value of either goods or metals to any appreciable extent as things exist in business to-day, when over ninety-five per cent. of our exchanges are made by a virtual transfer of goods against goods by a highly perfected system of credit.

CHAPTER VII

CONCLUSION

§ 1. Summary of the economic features of the shifting frontier. 2. The psychological effects of rural life recalled. 3. The growth of dangerous institutions. 4. Lessons of experience not wholly satisfactory. 5. Hopeful tendencies.

§ 1. We have now followed the course of Western development, from the beginning of our national history, to point out the relevant facts in the economic condition of each frontier. An attempt has been made to explain, in the light of these conditions and certain psychological principles previously set forth, the successive inflation movements. It is the purpose of this chapter to point out in conclusion certain tendencies which may affect our future monetary policy.

While the frontier was found to move westward with great rapidity after it crossed the Eastern plateau, the movement was not steady, but took the character of succeeding waves; each forward shift was followed by a period of comparative rest. We have seen that each period of advance was marked by prosperity, prevailing usually throughout the country; a period when prices were high, especially in those staples which most closely touched

the agricultural interest. Conditions were such that wild land promised a rent to the farmer, and capital was abundant for Western investment,—that is, when "money was plenty."

When these Western investments were yielding profit, land mortgages were looked on with favor by Eastern lenders. This capital offered for loan was taken with avidity by the pioneer farmers who were always land-poor,—that is, they had invariably used up their capital to extend their land holdings to the sacrifice of improvements necessary to make this land most productive. The result was, therefore, that prosperity brought debt, to be followed by the inevitable period of liquidation. With liquidation came the depression of values, disappearance of land rent, and the consequent withdrawal of Eastern loans.

As a conspicuous fact in the prosperous times was the abundance of capital seeking investment, so in the ensuing depression the superficial cause of the hard times was the inability to obtain capital. The result was a belief that money was purposely withheld in order that prices might be depressed to the advantage of the creditors, and the discontent which came from failure was aggravated by a suspicion of treachery and a sense of injustice.

The real cause of the depression, in the natural operation of economic law,—the disappearance of land rent in the extension of agricultural operations to more fertile soils, and the consequent narrowing of the basis of credit in regions already under cultivation,—was not appreciated by the landowners,

who seemed to feel that because the land was productive by nature it should possess an "intrinsic" value.

§ 2. It was shown that the causes of this failure to understand the economic forces was psychological, as the causes for the depression of values had been economic. The conditions underlying the morbid discontent were those characteristic of a rural and frontier environment. The relatively secluded life of rural communities, their scant opportunity for association with men of different interests, gave their members less chance for wide observation of general economic forces, especially the principles of money, credit, and the course of economic changes. This identity of business interests and occupations in rural communities resulted in a failure to understand the point of view and motives of men with different interests. The urban and commercial classes failed as truly to understand the men of the fields, and the instinctive distrust of strangers was deepened to a real dislike which was mutual and but thinly veiled.

We found that climate, soil, and the degree of industrial organization determined a territorial grouping of rural interests, and developed sectionalism, which resulted in sharp antagonism when the economic interests of the different sections clashed, —an antagonism that was greatly accentuated by the inability of either party to appreciate the issues at stake with the other. The isolation of the rural family was favorable to emotional tendencies. The solidarity of interest in agricultural communities,

over large areas, determined the subjects of intercourse and unity of opinion, and prepared the ground for the skilful leader and organizer.

It has been shown how these psychological influences caused the rapid development of institutions which, on the authority of the leader, whether prophet or demagogue, became quickly rooted and established.

§ 3. We have seen how the psychological influences readily combined with economic conditions to determine the emotional life of the pioneer. He was restless and sanguine, otherwise he would not have been a pioneer. Forced by the conditions of frontier life to a standard of living below the normal, he found his sole compensation in material success. On failing to achieve this, his natural discontent was accentuated, he felt aggrieved, he accepted the most plausible explanation, and demanded redress from the Government, which by unwise policies had done much to engender a spirit of dependence upon government help. A weak financial policy permitted such temporary measures as the war tariff and the inconvertible notes to drift into the status of permanent institutions of peace. Legislative favors, which were at first accidental or at best incidental, were now claimed as matters of right. Personal independence and responsibility were undermined and the institution of private property endangered.

§ 4. The question naturally suggests itself whether or not the United States may be compelled to face again the demand for a depreciated standard,

or has the infection run its course and passed out of the system? It would be fortunate, indeed, if a definite answer to this question were possible, but the best that can be done is to compare certain lessons of the past with certain evident tendencies of the present.

In the first place, the frontier, in so far as it forms an important element in American society, is gone. The "West," as this term has been used for a hundred years, has passed into history. Not that territorial extension is necessarily stopped, but it is geographically impossible for any new frontier to bear a territortially large ratio to the settled area as in the past. The country has become, for all purposes of business, relatively homogeneous. There is little opportunity for the exploitation of one section with its solid interest by another section with a counter interest. The South has its manufacture and commerce; the Mississippi valley its cities and railways. The prairies have a diversified industry and are dotted with colleges, while the mountains are showing the same tendency toward diversification and cosmopolitanism.

Any of the past inflation movements would hardly have secured the following which it did secure, without the conflict of interests of sections. The institutions have been introduced, as was silver money, or sustained, as were the greenbacks, in a spirit of compromise when interests were played against each other with a disregard of principles.

In the second place, however, while it is not likely that any of the same demands will arise again, since

the frontier is gone, there is a warning in the fact that the demands in the past have been superficially very different—as different as the demand for the overthrow of the Bank of the United States and the call for the free coinage of silver. Yet beneath the surface was this fundamental agreement, an effort on the part of men of the West and South to secure purchasing power without producing wealth of an equivalent value in exchange or in deposit for repayment.

In some cases the evil arose from adopting, as a temporary measure, a device which could find no justification on fundamental principles. The operation of this device wrought a temporary and superficial effect, which was quite different from, if not, indeed, opposite to, a more permanent and profound effect more or less concealed from sight. In illustration of this the bank-note issues contributed to the more rapid settlement of the Mississippi valley than might have been otherwise possible, but this rapid development went on at the ultimate expense of creditors. The greenbacks permitted the war to go forward with apparent financial smoothness, prices were high, and business in general seemed prosperous, while the real financial burden of the war was only postponed to fall later in crushing taxation. The unfortunate result is that the lessons of the past cannot be depended on to prevent a recurrence of the same or kindred errors.

Perhaps the chief lesson which our monetary history teaches is the great danger which lurks in the adoption of mere expedients. Once accepted these

dangerous institutions become established because the people have not the knowledge of monetary principles which enables them to go beneath the surface in estimating the character of the system with which they have grown familiar. To illustrate, the danger of State notes had become so fully appreciated by 1787 that a clause in the Federal Constitution happily prevents their reappearance. But we have no such guaranty against the recurrence of the subsequent errors. This may be shown best in the failure of people and legislatures to locate the real danger point in bank-note issues. The wild-cat banking experience presents this curious situation: after the speculative wave had passed it appears that the attention of the people had been drawn to the notes as the element of danger, while they had failed to observe a far more important consideration, namely, the character of the security against which the bank notes were issued. The particular form of the demand liability which a bank issues is of little importance if the assets which are held for the redemption of those liabilities are ample and readily convertible for the maintenance of a falling specie reserve. No bank gives away its notes, barring cases of fraud, but the liabilities, whether notes or deposits, are given in exchange for private obligations which are supposed to be collectible on their maturity, or negotiable in the general market. The bank's ability to meet its own liabilities depends upon the judgment exercised in the selection of its securities; if the assets are such as are liable to great or sudden depreciation, or are of a character

that can be collected only after tedious litigation, the bank may be unable to meet its liabilities on demand. Of such "slow paper" real-estate mortgages, or notes with personal security ultimately resting on land values are about the worst. This was the rock on which the banks were wrecked before the war. The result is that the public to-day is unwilling to allow an issue of notes without specific security to the note holder, while it wholly disregards the enormous expansion of deposits, demand liabilities not only essentially identical with bank-notes, but constituting an instrument for the inflation of credit quite as effective as the notes. Neither State nor Federal Government makes any attempt to limit deposits, and the absence of an arbitrary limit is no doubt fortunate for the business community.

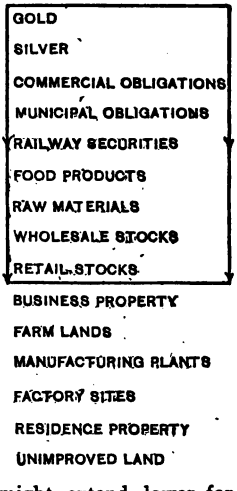
As a further evidence that the people do not appreciate the nature of our early banking experience, many of the very persons who would refuse to allow an issue of notes based on general assets, from a fear that is utterly unfounded, are willing and anxious that national banks may lend on real-estate security, and thus open a door to a very real danger. The public is thus alert as to the form, but neglectful of the substance. True to history, this sentiment is found chiefly in the West and South.

While it is not the purpose to take any position either for or against the expediency of a system of "asset currency" here, it is desirable to point out this inconsistency, which arises from a superficial interpretation of history. Efforts to protect the

patrons of the banks are mostly beside the point when directed merely at the form of the demand liability, but such efforts might serve a useful purpose if directed intelligently toward the character of the bank's resources.[1]

The error that was made in putting out the circulating notes of the Government has been sufficiently dwelt upon. Enough people were convinced of that error to prevent any expansion of notes from 1874 to the present. They are not ready, however, to redeem and destroy these, although they were originally issued as a temporary war measure. The notes have lost, to a great degree, their character as an evidence of debt. They stand in the popular

[1] The chart presents, in descending series, examples of property, articles available for security for commercial bank loans. Considering (1) readiness of convertibility and (2) stability of market value, the items lower on the list are successively less fitted to assure the redeemability of the bank's demand liabilities. The rectangle includes items generally safe. Thus, for instance, while railway securities are subject to sudden fluctuations, they have the great advantage of nearly always being salable at some price. On the other hand, while improved farms are more stable in value, the collection of farm loans is often very tedious and uncertain. Of idle plants or vacant sites nothing need be said (see reference to property held by the Bank of the United States, (page 109), for they are worse than farms. The credit rectangle might extend lower for savings banks, and still lower for insurance companies.



mind as "money," and seem to justify the absurd doctrine that the stamp of the Government gives value. So long as they remain in circulation they constitute a danger. They are considered necessary to facilitate business and prevent a fall of prices. Instead of removing this threat from the Treasury and allowing their places to be filled by those forms of credit which normally arise through our highly developed commercial and financial system, these notes are allowed to remain, an object-lesson which will certainly lead to a demand for their expansion when any serious crisis shall overtake the Government.

Finally, the credit of the country was brought to the verge of ruin by the question of free coinage of silver, an agitation which certainly would have amounted to little had it not been for the anomalous situation resulting from the purchase acts and the artificially enforced circulation of silver dollars in the South and West. This policy, which had no monetary justification, failed in its purpose to create a substantial demand for silver, while, on the other hand, it established an institution rooted in error and fraught with danger, and, like the kindred greenback policy, greatly augmented the spirit of paternalism, and tended to a subversion of the institution of property.

§ 5. There are, however, certain forces which are tending to eliminate the dangers of inflationism in the future. It might seem that the experience of the past would have removed the danger, but the teaching of the past, as has been shown, was equivocal

and illusory. The wolf appears each time in the clothing of a different sheep, and the danger is that he will not be recognized when he comes again. Not until the people see the fundamental principles at stake will the country be safe from false monetary doctrine. So long as men go into debt they will seek the shortest way out. So long as speculation proves profitable men will go to the limit of their credit in good times and find themselves insolvent in times of depression.

The forces which are tending to eliminate these and kindred dangers are educational. First in importance, again, is the disappearance of the frontier with its isolation and specialized industry. With the passing away of the well-defined sectionalism in business interests comes the corresponding extension of cosmopolitan life, both socially and industrially. This has, no doubt, done more to produce that educational effect described in Chapter I. as the chief preventive of the spread of any "ism" which rests on superficial facts explained by the teacher who makes the loudest noise.

Next in importance to this mingling of interests is the fact of an increasing amount of direct teaching on the part of those who are competent to give it, and an increasing desire to know the real principles underlying a science of money on the part of those who realize that they have been misled in the past. Comparatively few have been in a position to appreciate the rapidity with which our commercial and industrial systems have grown in extent and complexity, especially since the war, and as this situa-

tion is more fully realized it becomes apparent that one's financial safety depends on the most careful study of this new situation. One good result of the "populistic" agitations, the farmers' clubs, and the campaign of 1896 has been to open the minds of all classes to instruction in these subjects whose vital importance can no longer be doubted. It is possible that all the trouble that has come from erroneous financial theory in this country may be fully compensated for if it shall result in such public enlightenment as will enable the people to perceive and ward off that greatest of all economic dangers, the abolition of private property in the means of production, for which the propaganda of socialism is so ardently and persistently striving.

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